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Trade Adjustment Assistance: New Ideas for an Old Program

Special Report

CONGRESS OF THE UNITED STATES
Office of Technology Assessment
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Foreword

In 1986 OTA was asked by the Senate Committee on Banking, Housing, and Urban Affairs; the Senate Committee on Finance; and the House Committee on Banking, Finance, and Urban Affairs to carry out an assessment of technology, innovation, and U.S. trade. As part of that assessment, and in preparation for congressional consideration of new comprehensive trade legislation, Senator John Heinz asked OTA to prepare a special report evaluating the problems and opportunities of the Trade Adjustment Assistance program (TAA).

TAA includes two programs: employment and training assistance for workers who have lost jobs on account of trade and technical assistance for firms and industries hurt by imports. Both parts of TAA have the potential to help workers and businesses adjust to intensifying global competition. This report discusses options for TAA redesign and administration that could make both programs more effective.

OTA's analysis of TAA for workers builds on a broader assessment, *Technology and Structural Unemployment: Reemploying Displaced Adults*, published in February 1986, which examined the reemployment and retraining needs of displaced workers generally (not just those affected by trade) and the adequacy of government programs to meet those needs. Taking as a starting point the lessons learned in the earlier study, this special report analyzes the strengths and weaknesses of TAA in helping trade-affected workers find or train for new jobs. TAA's greatest strength is its capacity to support long-term training. Its major weaknesses are delays in delivery of services and lack of attention to workers' individual needs. This report focuses especially on coordinating TAA benefits with the services available to all displaced workers under Title III of the Job Training Partnership Act, in ways that take advantage of the strong points of both programs and best serve the individual worker. TAA for workers has recently expanded and is now a substantial program—almost equal in funding (about $200 million in 1987) and enrollment (more than 100,000 workers) to the JTPA Title III program.

TAA for firms and industries, modestly funded at about $16 million per year, is nevertheless the main source of long-term, intensive technical assistance from the Federal Government to small and medium-sized manufacturers. The Administration has long proposed to abolish the program, arguing that it is inappropriate and ineffective, and in recent months has largely immobilized it by delaying grants to service providers. Despite its difficulties, the program does have potential for helping high-risk, trade-injured firms recover competitiveness. The potential cannot be fulfilled, however, unless the grants that pay for technical assistance are released in a timely, reliable manner.

In conducting this study, OTA interviewed TAA and JTPA Title III program managers in 39 States and directors of 11 Trade Adjustment Assistance Centers, which receive TAA grants to deliver technical assistance to firms. The viewpoints of many others with an interest in the TAA program were sought as well. OTA thanks the many people who provided data and advice—panel members; State and local government officials; representatives of the Departments of Commerce and Labor; and experts in academia, business, and labor unions—for their assistance. As with all OTA studies, the analyses and findings of this report are solely those of OTA.

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CONTENTS

Page

Summary and Conclusions . . . 1
  Trade Adjustment Assistance for Workers . . . 1
  Trade Adjustment Assistance for Firms and Industries . . . 5

Policy Issues and Options . . . 7
  TAA for Workers . . . 7
    Continued Existence . . . 7
    Coordination of TAA and Title III Programs . . . 9
    Reducing Delays and Inequities in TAA Certification . . . 10
      Outreach . . . 11
      Industrywide Certification . . . 11
      Other Problems of Equity . . . 13
    Emphasizing Adjustment Services . . . 14
    Funding . . . 16
  TAA for Firms and Industries . . . 17
    Continued Existence . . . 17
    Industrywide Certification . . . 18

Trade Adjustment Assistance: History . . . 20
  TAA for Workers: 1962-87 . . . 20
  Creation and Early Years: 1962-74 . . . 21
    Years of Expansion: 1975-81 . . . 22
    Cutback and Regrowth: 1981-87 . . . 26
  TAA for Firms . . . 30
    The Early Years: 1962-74 . . . 31
    Years of Expansion: 1975-81 . . . 31
    Bare Survival: 1981-87 . . . 33

Trade Adjustment Assistance for Workers: Issues . . . 36
  The Equity Argument for TAA . . . 37
  Extra Benefits Under TAA . . . 39
    Vocational Skills Training . . . 39
    Out-of-Area Job Search and Relocation . . . 41
    Extended Income Support . . . 42
  Difficulties With TAA . . . 43
    Delays . . . 43
    Eligibility: Drawing the Lines . . . 44
    The Job Search Program Requirement . . . 46
    The Department of Labor's Role . . . 47
  Coordination Between TAA and Title III Programs . . . 47

Trade Adjustment Assistance for Firms and Industries: Issues . . . 52
  How TAA for Firms Operates . . . 52
  Should TAA for Firms Continue? . . . 58
    The Inspector General Study . . . 59
    The HCR Report . . . 61
    Defining Success . . . 62
  Improving TAA for Firms: Problems and Opportunities . . . 64
    Interruptions to the Program . . . 64
    Time Restrictions . . . 64
    Outreach . . . 65

CONTENTS—Continued

Page
Affiliations With Other Institutions 65
Broader Eligibility 66
The TAA Industrywide Program 66

Boxes

Box *Page*
A. Are GM Auto Workers Trade-Affected? Under TAA Rules, Maybe Not 38
B. Coordinating TAA and Title III Programs: How Massachusetts Does It 50
C. New Life for a Ninety-Year-Old: TAA Helps New England Clock Firm Survive 55
D. Made in the USA: Trade Adjustment Assistance for Apparel Manufacturers 56

Figures

Figure No. *Page*
1. Workers Certified for TAA Benefits, 1969-87 23
2. Outlays for TAA Benefits for Workers, 1970-87 24
3. Workers Certified for Trade Adjustment Assistance, by Selected Industries, 1975-86 . . . 29

Tables

Table No. *Page*
1. Workers Certified for TAA, Trade Readjustment Assistance, and Adjustment Services, 1975-87 25
2. Workers Certified for Trade Adjustment Assistance, by Selected Industries, Fiscal Years 1970-86 27
3. Workers Certified for TAA as a Percentage of Workers Applying 28
4. Trade Adjustment to Firms and Industries, Fiscal Years 1978-86—Technical Assistance 33
5. Firms and Industries Receiving TAA Technical and Financial Assistance, Before Fiscal Year 1982 and Fiscal Years 1982-86 34

SUMMARY AND CONCLUSIONS

In debating the great issues of international trade, and searching for new ideas to improve U.S. competitiveness, Congress has the opportunity to examine and improve an old idea, Trade Adjustment Assistance (TAA). Adjustment assistance for workers losing jobs and firms losing business because of imports has existed, in various forms, for 25 years. **In today's world of intense global competition, TAA has good potential for helping American workers and businesses adapt. Neither the program for workers nor the one for firms is currently fulfilling its potential, but both have strong points to build on.**

TAA for workers offers special training and relocation assistance and extended income support during unemployment to people losing jobs on account of imports. After several lean years, the program has regrown to substantial proportions, expected to cost over $200 million in 1987 and enroll well over 100,000 workers. Historically, the income support part of the program dwarfed training, but in recent years training has taken on greater importance. **The strongest point in the TAA program for workers is better opportunities for training than in other government-sponsored employment and training programs.**

TAA for firms offers technical assistance to firms and industries that are losing out to foreign competition. **The TAA firm program is small and its existence precarious. In line with Administration policy to abolish it, only $2.2 million of the $15.8 million funding provided for it by Congress had been released by May 1987. Modest as it is, TAA for firms is the major Federal program providing sustained, in-depth technical assistance to small and medium-sized manufacturers.**

The Administration also proposes to end the TAA program for workers, arguing that they can be served in a new broader program open to all displaced workers.[1] (Spending for the present TAA program for workers has not been held up, however.) The rationale for a program open only to trade-affected workers and businesses is that people who bear the heaviest costs of the Nation's free trade policy, meant to benefit all Americans, deserve special assistance. The main argument against a special program is that, as the U.S. economy is increasingly involved in world trade, distinctions among those who are trade-affected and those who are not have become difficult and arbitrary.

If Congress decides to maintain TAA for workers as a separate program, it may want to consider several ideas for bolstering TAA's advantages—mainly, training opportunities—and repairing its weaknesses, such as delays and inequities in determining workers' eligibility. If TAA for firms is to be preserved, it will need strong, explicit congressional direction for timely spending of appropriated funds.

Trade Adjustment Assistance for Workers

After several years when TAA benefits were provided to relatively few workers and spending was limited, TAA is now expanding rapidly. In 1987, TAA approached the size of the general displaced worker program, under Title III of the Job Training Partnership Act (JTPA), which is open to anyone who loses a job when U.S. industries close plants, retrench, automate, relocate, or send work overseas. Funds for Title III for the program year beginning July 1987 will be $223 million,[2] about equal to the projected TAA spending of $203 million for fiscal year 1987 ($223 million if a supplemental appropriation of $20 million is passed). About 145,000 workers per year were newly enrolled in Title III projects in the mid-1980s; this compares to 93,000 certified for TAA benefits in fiscal year 1986, and 110,000 to 140,000 expected to be certified in 1987.[3] Thus, **TAA is a major resource for displaced workers who are trade-affected.** One director of displaced worker services (Massachusetts) told OTA: "TAA is the only way we've been able to make the money go far enough."

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[1] The Administration's proposal for a new worker readjustment program is described in the section entitled *Policy Issues and Options*.

[2] For the program year 1986-87, Title III funds were $100 million; Congress had cut the funding from $223 million because, on a national basis, there was a large amount of unspent Title III funds. Congress restored funding to $223 million for the program year 1987-88.

To be eligible for TAA benefits, workers must be laid off, or threatened with layoff, from a firm that is losing ground to import competition. First, a group of three or more workers, or their union or representative, or the company, must petition the U.S. Department of Labor to certify them as eligible. To approve the petition, the Department must find that: 1) a significant number of workers in the firm or subdivision have lost their jobs, or are threatened with job loss; 2) the firm's sales or production, or both, have declined absolutely; and 3) imports of articles "like or directly competitive with" articles the firm produces "contributed importantly" to the decline; that is, the increased imports were as important as any other factor in the decline. On this last point, the Labor Department requires proof that the firm's customers have switched to imports, and the switch must be recent, since records are examined for the past 2 years only. Once certified, the workers are eligible for income support, at the level of unemployment insurance (UI) payments, for as long as 1 year of unemployment; training and extended income support during training; and allowances to cover (within limits) the costs of out-of-area job search and relocation.

According to State officials responsible for the programs,[4] **TAA's greatest advantage has been its ability to support long-term, intensive training and its extended income support for workers in training—up to 78 weeks, at the level of unemployment insurance (about $150 a week, on average)**. TAA legislation has always stated training in a new skill as a major aim of the program. Though training was little used in the 1970s, it has recently become a stronger component of the program; training and relocation assistance has accounted for about 25 percent of TAA spending since 1982.[5] The number of workers getting TAA training is not large; it has been about 7,000 to 8,000 a year in recent years. However, State officials report that demands for TAA training are rising.

In 1987, in fact, **TAA training funds were running out. Before the end of the first quarter of the fiscal year, the Labor Department was delaying, rejecting, or sharply cutting back proposals for training submitted by the States.** Even so, $18 million of the year's $26 million appropriation for training, out-of-area job search, and relocation assistance was gone by March, and half the rest was reserved for job search and relocation assistance, which are considered entitlements under the law.[6] In April, the House passed a supplemental appropriation of $20 million; by early May the Senate Appropriations Committee reported out a bill, but the full Senate had not yet acted.

Despite the current shortage of funds, TAA does have the mandate and the potential to support long-term training. The JTPA Title III program, open to all displaced workers, has a great deal of flexibility, but in practice, training tends to be be deemphasized. Most of the JTPA programs give higher priority to low-cost job search assistance that leads to early reemployment. Title III training is usually short (9 weeks, on average, according to the General Accounting Office), and income support is nearly always confined to the 26 weeks of regular UI payments.

Several bills before Congress would require that workers receiving TAA income support payments (Trade Readjustment Allowances, or TRAs) take remedial education or vocational skills training courses, unless State officials waive the requirement as inappropriate or infeasible. If Congress wishes to to take such steps to emphasize training under TAA more strongly, higher funding will be necessary. The Labor Department has projected that 55,000 workers will draw TRAs in 1987, an estimate that is probably low, considering the rising number of workers being certified.[7] If 55,000 TAA-eligible workers were in training, the cost for the year would probably be about $138 million to $165 million; this compares to an appropriation of $29.5 million for training, out-of-area job search, and relocation allowances in fiscal year 1987.

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[3] OTA based this estimate for 1987 on the numbers of workers certified in the first two quarters of the fiscal year. Certifications were exceptionally high in the first quarter, because the Labor Department simplified its decision process, and went through a backlog of petitions.

[4] For this special report, OTA interviewed directors of Trade Adjustment Assistance worker programs and JTPA Title III programs in 39 States.

[5] For most years, Labor Department records do not show spending for training, out-of-area job search, and relocation assistance separately; in fiscal year 1984, when spending was reported separately, training accounted for 87 percent of the total for the three benefits.

[6] The total appropriation for training, out-of-area job search, and relocation assistance was $29.9 million, of which $3 9 million was for administrative costs.

The great disadvantage of TAA, according to State officials, is that workers have to wait to get adjustment services. Often, workers do not know about the TAA program and do not submit petitions for eligibility promptly. Then it usually takes at least 60 days to get a decision from the Labor Department. Until quite recently, the delays were often much longer. In October 1986 the Department simplified the certification process and delegated part of the fact-finding to its regional offices. In May 1987 the Department reported that 85 percent of petitions were being approved or denied within the 60 days the law allows for a decision. Because approvals are case-by-case, however, some delay is built into the TAA process. Experience with displaced worker adjustment programs shows that early action is critical in helping the workers find or train for new jobs. Under Title III of JTPA, an immediate response to plant closings or mass layoffs and early provision of services are possible, although most States are not yet organized to offer an effective rapid response.

State officials also report that workers are much more likely to get individual skills assessments and job counseling from Title III projects than from the Employment Service, which administers TAA training and relocation assistance. Workers benefit most from training—both remedial education and occupational skills training—that follows individual assessment and counseling.

Thus, **it takes a combination of features from TAA and from JTPA Title III to provide the best service to trade-affected displaced workers**. Most States have at least some pro forma integration of TAA and Title III services, but only about a dozen do an effective job of putting the best features of the two programs together. In the few States that do an outstanding job (Massachusetts, for example), everyone from the State director of displaced worker services down to staff at individual projects is aware of the helpful features of both programs. They are aggressive in urging unions, companies, or groups of three workers to submit TAA petitions promptly. "We go to the plant the minute we hear about a closing or layoff," said a Massachusetts official, "and we carry TAA petitions in our pockets." They use Title III for counseling, assessment, and job search skills training, and for starting workers in vocational skills training. They switch to TAA, if it comes through, for longer term training.

Some of the States that do little to coordinate TAA and Title III services have few displaced workers. Some, however, do have large numbers of certified workers, but neither Title III nor TAA officials are aware of the potential of the other program. For example, in Santa Clara County, California, where tens of thousands of workers in semiconductors and computers have lost jobs since January 1985, Title III project managers knew little or nothing about TAA. The same was true of officials at the State level.

In general, States have not received adequate Federal information and guidance on TAA. For example, regulations under the 1981 amendments to the program were not published until the end of 1986.[8] **The Labor Department has not given the States much technical assistance on how to combine services from the two programs**. The Labor Department's Region V (Chicago) is an exception. This regional office holds quarterly roundtables for Title III and TAA officials of the Midwestern States it serves, for exchange of information and experience. Several of these State officials volunteered that the help they get from the regional office in coordinating TAA with Title III is essential. "If not for that, we'd be much further behind," said a Wisconsin official.

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[7] According to Labor Department spokesmen, this estimate may be revised upward.

[8] Regulations under the TAA legislation passed in 1986 were not yet published as this report was written (May 1987), but the Department of Labor stated that proposed regulations would be published no later than June.

Other problems besides coordination also interfere with the best use of TAA training benefits. Many trade-affected workers could benefit from remedial education, but few States use TAA funds to provide it. In its TAA regulations, the Labor Department classifies remedial education as a supportive service, so that payment has to come from administrative funds, not training funds; no State reported using administrative money for this purpose. The Department does allow the use of TAA training funds for remedial education if it is an integral part of a vocational skills training course, and a few States (such as Massachusetts) use the funds in this way. If Congress wants remedial education to be offered as training in the TAA program, it could direct the Department of Labor to approve the use of TAA training funds for this purpose.

Another problem is that **under the law, as interpreted by the Department of Labor, TAA funds must pay for *all* of a worker's TAA training; contributions from State or local programs or from private sources (such as the company laying the workers off) cannot be accepted**. Funds from other Federal programs can be used to start a worker's training, but once TAA money begins to be used, funding from other Federal programs must cease. If Congress deems it desirable to encourage the combining of resources to pay for training for trade-affected workers, it could add language to the law that explicitly allows it.

Finally, not all displaced workers want or can benefit from vocational skills training. Another possible way to help trade-affected workers adjust might be to use a portion of a worker's Trade Readjustment Allowance as a wage supplement, for a limited time. On average, displaced workers take a cut in earnings when they find a new job. A limited wage supplement might help some workers get reemployed sooner than they otherwise would, and possibly get a head start on regaining some of their earning power. There has been very little experience with a public program of this sort; how much it might cost, and whether it might have adverse effects that are not anticipated, are uncertain. If Congress is interested in the idea of a wage supplement, it might wish to authorize a demonstration project.

While TAA training support can be invaluable to workers who want training in a new skill, it is difficult to administer because the delays and unpredictability of TAA certification seriously interfere with planning. In setting up training for groups of workers, the State agencies may have to gamble on getting TAA certification. If all workers from certain designated industries were made automatically eligible for TAA benefits, TAA training funds could be available immediately.

Industrywide certification might make eligibility more equitable, as well as faster and more predictable. A finding of a decline in sales or production would not be necessary for individual firms. Also, in identifying trade-affected industries, import trends over the past decade or so, rather than the past 2 years only, might be considered. Sometimes firms in trade-affected industries are slow to react, and postpone technological or organizational changes that could help the firm compete but involve reductions in the work force. Industrywide certification could extend TAA benefits to workers laid off from firms that make changes in order to meet foreign competition—by adopting new labor-saving technology, or trimming less profitable operations, or sending some of their work to lower cost countries. Very likely, industrywide certification would mean that many more workers would be eligible for TAA benefits, and needs for funding would rise substantially.

One difficulty with industrywide certification is in defining the industries. It has been suggested that findings of import injury by the International Trade Commission might be one basis for certifying industries; however, these findings are infrequent and narrow, and are made for purposes other than adjustment assistance to workers. If Congress is interested in the idea of industrywide certification, it might make more sense to develop criteria, such as trends in import penetration, import levels, exports, and world market shares, for defining the industries to be certified.

A much-criticized feature of TAA is the exclusion of workers from service and supplier industries. This gives rise to such anomalies as shoe workers being ruled eligible, but not the workers who make rubber heels for the shoes. If coverage of TAA were broadened to include firms providing essential services and supplies to the firms directly affected by imports, the number of workers eligible would almost certainly rise. So would funding needs.

Another way to achieve broader coverage is to replace TAA and Title III with one program that includes the most useful features of each and is open to all displaced workers. Administration proposals before the 100th Congress would do away with TAA and create a new worker readjustment program, adding new features that are not in the present Title III program, and authorizing spending of $980 million per year. **The Administration bill for a new displaced worker program does not, however, include all the desirable features of TAA, in particular the long-term income support now available to TAA-certified workers in training.** Nor does it include any extended income support for unemployed workers who lost their jobs due to import competition but are not in training. Some version of this feature has been a part of the TAA program since the 1960s. Continuation of a program of special benefits to trade-affected workers has strong support on both sides of the aisle in Congress, on grounds that it is fair to compensate those injured by national trade policy.

Trade Adjustment Assistance for Firms and Industries

TAA for firms is a small program offering technical assistance to trade-affected firms, which are defined in the law in the same way as for the worker program. The assistance is delivered by a dozen regional Trade Adjustment Assistance Centers (TAACs), nonprofit entities that are funded by Federal grants averaging about $1 million each per year, through the Department of Commerce. The program also offers technical and export assistance to industries affected by imports, primarily through their industry associations. Despite its small size (under $16 million for fiscal year 1987), **TAA for firms is the major Federal program** (with minor exceptions, the only one) **that provides sustained, intensive technical assistance (including advice on finance, marketing, engineering design, and shop floor operations) to small and medium-sized manufacturing firms.** Experience with this modest program may shed some light on how a more broadly available industrial extension service could contribute to the competitiveness of American industry.

Recently, however, Commerce Department administration of TAA for firms has virtually paralyzed the program. From October 1986 to mid-March 1987, the TAACs were given only 1- to 2-month extensions, mostly no-cost extensions with almost no funding from the fiscal year 1987 appropriation of $13.9 million for technical assistance (an additional $1.9 million was appropriated for Commerce Department administration). Through the end of April 1987, the Department had not given any 12-month grants to the TAACs. Previously, ever since they were established in 1978, the TAACs had operated on 12-month grants. After an Administration request for rescission of fiscal year 1987 funds failed in March 1987, the Department still postponed any decision on providing long-term grants to the TAACs, Instead, it extended the TAACs' authority only through mid-June, and released grant money in limited amounts. As of the end of April, $2.2 million had been released to the TAACs; $11.7 million remained unreleased. In May, the Department of Commerce finally requested refunding proposals from the TAACs, for the period June 1987-May 1988. When and if these proposals are approved, the TAACs will receive the remainder of the fiscal year 1987 money.

The effect on the TAACs of the prolonged starvation for funds and authority was crippling. Most were reduced to skeleton staffs. They lacked the money to meet outstanding commitments to clients, and could not take on any new clients, since they were authorized to stay in business for only a couple of months. TAAC directors told OTA that they had lost legitimacy with the firms they were meant to serve.[9]

The Administration has asked for an end to the TAA program for firms every year since 1982, and twice proposed rescissions, both of which failed. Administration officials have said they consider the program ineffective and have argued that in any case it is inevitable for many firms to succumb to competition, foreign as well as domestic, and that the government has no business trying to save them. Proponents of the program (including many firms that have received assistance from the TAACs) argue that, given good technical assistance, many firms weakened by import competition can revive, and continue to provide economic life to their communities.

Studies evaluating the effectiveness of the TAA program for firms are contradictory and uncertain. The report of the Commerce Department's Inspector General, which called the program a failure, fails in many ways to fairly judge its effectiveness. Probably the most appropriate way to assess the program is to measure its costs to the taxpayer against benefits to society. No one has conducted a systematic cost-benefit analysis of this kind. TAA for firms is by its nature high-risk, because firms can qualify for assistance only if they show that sales or production have declined due to imports. Evidence from a few firms strongly suggests that a few successes a year, resulting in higher income and property tax receipts from the jobs and firms saved, can more than repay the costs of the program.

Many individual firms that have received technical assistance from the TAACs have high praise for the program. Many of the small and medium-sized manufacturing firms assisted by TAA are operated by one person, with family help. One experienced apparel manufacturer in Georgia gave the TAAC most of the credit for getting his company out of trouble, by introducing him to better cost and quality control methods and helping to pay for advice from an industrial engineer, who suggested improvements in the cutting room. Some of the suggestions, he said, were "obvious, once they said it," but he had been too busy to realize what changes needed top priority attention.

The experience of the last year suggests that appropriation of funds for the TAA program for firms is not enough to assure its survival. The Budget and Impoundment Control Act of 1974 was a response to the problem of an Administration's failure to spend appropriated funds because of policy opposition to a program; however, the act does not provide a very direct remedy. One option that is open to Congress, if it wishes the program to continue, is to direct the Department of Commerce to approve 12-month grants to the TAACs by a certain date every year—say by December 31 (the end of the first quarter of the fiscal year).

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[9] For this special report, OTA interviewed directors and staff of 11 of the 12 Trade Adjustment Assistance Centers operating across the country.

POLICY ISSUES AND OPTIONS

In light of the Administration's proposals to abolish Trade Adjustment Assistance for both workers and firms, the first issue to consider is the continued existence of both programs. If Congress decides to preserve them, several options for their more effective functioning may be considered. For the worker program, the major issues Congress may wish to examine are:

- how to encourage more effective coordination of TAA and Title III programs (under the Job Training Partnership Act) so that workers can take advantage of the best features of each;
- how to cut back delays, inequities, and inconsistencies in determining eligibility for TAA;
- how to structure TAA to emphasize adjustment—that is, training for workers who can benefit from it and prompt reemployment for others; and
- how and at what level to fund a program offering high-quality services to a broad group of eligible workers.

For the firm program, the major issue Congress may wish to consider is how to put technical assistance for firms on a steady, reliable footing. Also, options for broadening and simplifying eligibility for TAA might be considered for firms as well as for workers. The following sections consider separately the TAA programs for workers and for firms.

TAA for Workers

Continued Existence

The principal arguments in favor of continuing a separate program for trade-affected workers are: 1) that fairness demands special attention to the needs of people who pay the most for the Nation's free trade policy, and 2) that a combined program, open to all displaced workers, is bound to lose some of the valuable features now offered to TAA-certified workers. Some also argue that changes in TAA certification (discussed below) could remove much of the delay and inequity in determining eligibility.

The main argument against a separate program is that decisions on who is trade-affected and who is not have become difficult and arbitrary. Twenty-five years ago, when trade was only a modest factor in the U.S. economy, it may have been feasible to identify particular groups of workers affected by trade. Today, when more and more of the goods manufactured in the United States are facing stiff world competition, such distinctions are hard to draw. A program offering adjustment services of high quality to all displaced workers, regardless of the cause of displacement, would avoid the delays and inequities in determining eligibility that plague TAA.[1]

As this report was written, in spring 1987, none of the proposals before Congress for a comprehensive displaced worker program included all of TAA's features. The Administration proposal to abolish TAA and replace Title III of JTPA with a new displaced worker program was contained in Subtitle C (the Worker Readjustment Act) of a bill entitled the Trade, Employment and Productivity Act of 1987 (H.R. 1155, introduced by Rep. Michel and others in the House, and S. 539, introduced by Sen. Dole and others in the Senate). The proposed Worker Readjustment Act includes a number of new features, such as a requirement that States establish a system for rapid response to plant closings or large layoffs, and authorizes spending of $980 million per year. This compares to the appropriation of $223 million for JTPA Title III for fiscal year 1987, and the projected expenditure of $206 million for TAA.

The Administration bill would also allow up to 2 years of training for displaced workers (as TAA now does for trade-affected workers) and, if it were determined necessary for participation in training, would provide income support at the level of unemployment insurance payments after UI is exhausted. For workers not eligible for UI, a needs-based benefit could be provided. Thus the bill has a provision for extended income maintenance for workers in training. However, these payments would not be granted automatically, as in TAA, but only allowed. Also, to be eligible for the payments, the worker must decide to participate in retraining no later than 10 weeks after starting to receive UI. Furthermore, the money to pay for income support must come out of the funds available for all support services, which include transportation, health care, special services and materials for the handicapped, dependent care, financial counseling, and other reasonable expenses necessary for participation in the worker readjustment programs. Spending for support services is limited to 15 percent of the amount available for the basic services program (including training), which is half the total authorization of $980 million. Thus the maximum available for all support services for people in training would be $73.5 million per year (assuming Congress appropriates the amount authorized).

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[1] In this section, the arguments for and against a separate program for trade-affected workers are only briefly stated. For a fuller discussion, see the section entitled "The Equity Argument for TAA," under *Trade Adjustment Assistance for Workers: Issues.*

Judging by experience, it is not likely that the full 15 percent would be spent for all supportive services, much less for the single item of income support for people in training. Title III of JTPA also allows roughly 15 percent of grant money to be spent for supportive services, including income support for participants in training. In practice, almost nothing has been spent for this purpose.[2] In JTPA program year 1985 (July 1985 to June 1986), the most recent for which information is available, 5 percent of Federal grants for Title III services was spent for all supportive services, and no more than 7 percent was spent in any previous year; most of it has gone for transportation and child care expenses. Possibly, with a program that is more generously funded than JTPA Title III, more would be allocated to income support for workers in training, but the Administration bill would not assure income maintenance as TAA does.

Even in the unlikely event that the maximum amount allocated for support services were devoted to income support for people in training, it probably would not go far enough. The Administration estimated that the new program would serve 500,000 displaced workers per year. In well-run displaced worker projects, about 20 to 30 percent of participants can be expected to opt for retraining. Supposing that 100,000 workers per year (20 percent) selected training, that the average length of training was 32 weeks (two semesters), and that the Worker Readjustment Program provided income support payments for 16 weeks (assuming that workers enroll in training after 10 weeks of receiving UI, and that UI pays income support for the first 16 weeks of training). In 1987, TRA payments averaged about $147 per week; 16 weeks of payments would amount to $2,350; and 100,000 such payments would amount to $235 million per year.

The Administration bill has no provision for extended income support (up to 1 year) for unemployed displaced workers, comparable to the Trade Readjustment Allowances that all TAA-certified workers are entitled to draw. Few proposals have ever been made for extending this benefit to all displaced workers, although the rationale—that people losing jobs because of structural economic change are likely to go through longer spells without work than the average unemployed worker—applies as much to all displaced workers as to trade-affected workers. Such a benefit for all displaced workers could cost as much as $2 billion per year.[3]

The Administration proposal for income support for workers in training falls short of that now available to trade-affected workers under TAA. If Congress wishes to combine the two programs but to preserve the TAA benefit of reliable income support throughout the period of training, and extend it to all displaced workers, the benefit would have to be made automatic, not optional, and it would have to be better funded.

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[2] By and large, Title III programs do not emphasize vocational skills training, especially long-term training; most emphasize rapid reemployment and low-cost services. See U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment: Reemploying Displaced Adults*, OTA-ITE-250 (Washington, DC: U.S. Government Printing Office, February 1986), pp. 182-185.

[3] Further discussion of this point and the basis for the estimate are in the section entitled "Extended Income Benefits" under *Trade Adjustment Assistance for Workers: Issues*.

Coordination of TAA and Title III Programs

Should Congress continue to maintain separate programs for trade-affected workers and displaced workers in general, effective coordination of the two programs can be highly advantageous to both groups of workers. TAA-certified workers can make use of services in Title III programs that are not offered (or effectively offered) under TAA. For example, rapid response to plant closings and early provision of services is all but impossible under TAA, because workers must first petition for certification and wait for approval, a process that usually takes at least 2 months. Rapid response is possible under Title III, though it is not yet widely in place; several bills before the 100th Congress would strengthen rapid response capabilities in programs open to all displaced workers.[4] Program coordination can also spread benefits over a greater number of displaced workers; when TAA approval comes through for trade-affected workers and payment for their training or relocation benefits is picked up by TAA, Title III funds can be freed for service to other displaced workers.

The great advantages of TAA are its ability to support longer term training and income support during training, plus more generous allowances for out-of-area job search and relocation costs. The greatest strength of Title III, besides the possibility of early response, is that these projects offer a wider range of services—especially in counseling and assessment—than TAA-certified workers usually get from the Employment Service. With better coordination of the two programs, Title III projects could offer workers the individual counseling they need to evaluate their training and reemployment options, and could provide expert guidance (which many ES offices cannot offer) on local training opportunities.

Only about a dozen States have made real progress toward coordinating their TAA and Title III programs, but some of these have done it very successfully. Common features in these States are their aggressiveness in making sure that petitions are submitted as early as possible for workers' TAA eligibility, and their ingenuity in putting together services from each program for the benefit of individual workers. Because TAA certification is not predictable, these States must cope with a high degree of uncertainty in making training plans.

Some State officials—including some in States doing an outstanding job of coordination—say that coordination would be easier if TAA could reimburse Title III programs for money spent on workers who later get TAA certification, for such services as counseling and assessment, job search skills training, or the early weeks of vocational skills training courses. The latest law authorizing TAA (the Consolidated Omnibus Budget Reconciliation Act of 1985, enacted in April 1986) prohibits this kind of reimbursement. So long as money available for training, per worker, is more plentiful under TAA than under Title III, this idea might have the merit of spreading training opportunities more equitably among all displaced workers. However, with the near exhaustion of TAA training funds in the first quarter of fiscal year 1987, the reimbursement issue became moot. In the future, if TAA training were funded at a higher level, reimbursement might again become a practical question.

Another problem in coordination is that, under the law, as interpreted by the Department of Labor, once a TAA-eligible worker is approved for training, all the training costs must be paid by TAA. Training cannot be approved in the first place unless the TAA program has the funds to pay for all of it, and afterwards the funds must be spent.[5] In effect, this means that no contribution from any private sources, such as the company that laid off the workers, or from State or local governments can be used to supplement TAA training funds. The law also states quite explicitly that no other Federal program can contribute to the costs of TAA training once TAA funds are being spent for the purpose.[6] Congress may wish to reconsider these prohibitions, and allow TAA programs to combine their own training funds with additional contributions from companies, company-union funds (such as the United Auto Workers-Ford and UAW-General Motors nickel-an-hour funds), State programs, and other Federal programs, including federally funded Vocational Education and Adult Basic Education.

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[4] For example, H.R. 1122, introduced by Rep. William Ford and others, and S. 538, introduced by Sen. Howard Metzenbaum and others (both entitled the Economic Dislocation and Worker Adjustment Assistance Act); H.R. 90, introduced by Rep. Augustus Hawkins; and the Administration bills, S. 539 and H.R. 1155.

Another prohibition that could get in the way of effective service to trade-affected workers is the Labor Department's decision that TAA funds may not be used to pay for the job search workshops or job finding clubs that COBRA requires for workers receiving TRAs. The Department took the position that the requirement could mostly be met by other programs, such as Title III or the Work Incentive Program; the law allows a waiver of the requirement if no job search program is reasonably available. A number of States have reported difficulty in providing the job search program, especially for workers in rural areas, and five States with large numbers of TAA-eligible workers said they are waiving the requirement for many workers. Nearly all officials interviewed by OTA observed that job search training is valuable, and those that could not provide the service regretted it. If Congress wishes to make the service available to all TAA-eligible workers, it may want to consider designating funds for the purpose.

The Department of Labor has asked the Governors to take steps to promote coordination of TAA and Title III, but the Department itself has not actively encouraged it or offered much technical assistance. Also, TAA regulations were not published in a timely way from 1981 to 1986. The Labor Department has stated, however, that proposed regulations under COBRA (passed in 1986) will be published by June 1987.

If Congress wishes to encourage States in coordinating TAA and Title III services, to make the most of both programs in serving displaced workers, it might consider the following:

- through legislative guidance in oversight hearings, encourage the Department of Labor to offer technical assistance to the States on coordinating the two programs via the Department's 10 regional offices; alternatively, require by law that the Department do so;
- amend the Trade Act to allow TAA programs to accept contributions from other public and private sources for training of TAA-eligible workers;
- amend the Trade Act to allow reimbursement to Title III projects for services given to trade-affected workers before the workers are certified for TAA; and
- provide a designated fund for offering job search workshops or job finding clubs in States or areas where the service is not otherwise available.

Reducing Delays and Inequities in TAA Certification

Delays of several months have been common in getting certification of workers for TAA benefits. Delays arise from two causes: 1) ignorance about the program, so that workers or their representatives (union, employer, or any three workers) do not submit petitions as soon as the workers are laid off or get notice of layoff; and 2) the process of certifying workers firm-by-firm, which inevitably takes time. To approve a petition, the Labor Department must find evidence that import competition contributed importantly to the declining sales or production of the firm laying off those workers. Usually, the Department interviews customers of the firm to establish that imports have displaced the products of that firm.

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[5] This interpretation is based on language in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) stating that the Secretary of Labor may approve training for TAA-eligible workers and that "upon such approval, the worker shall be entitled to have payment of the costs of such training paid on his behalf by the Secretary" (Sec. 2506(2)(a)).

[6] This explicit prohibition was added in the Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272), which states that if the costs of training a TAA-eligible worker are paid by TAA, "no other payment for such costs may be made under any other provision of Federal law" (Sec. 13004(3)(A)).

Outreach.—More energetic outreach, both by State employment security agencies and the U.S. Labor Department, might help to reduce delays caused by lack of knowledge about TAA. One bill before the 100th Congress (H.R. 3, passed by the House of Representatives in April 1987) would require States to inform workers about benefits and procedures under TAA when the workers apply for unemployment insurance, and to facilitate the early filing of TAA petitions. Another possibility is to allow State Governors to file petitions on behalf of workers. This would give the Governors more responsibility, as well as more opportunity, to make sure that workers in their States become eligible for TAA benefits as quickly as possible.

A number of the State employment security agencies have suggested that they could do a better job of acquainting workers with the TAA program and seeing that petitions are submitted early if administrative money were available in advance, rather than paid after proposals for TAA services are approved. (The State agencies receive 15 percent of the amount of training or relocation grants for costs of administration.) With money provided at the beginning of the fiscal year, they say, they could hire permanent staff to take care of TAA clients, providing more individual counseling and assessment as well as doing a better job of TAA outreach.

How to allocate the money among (and also within) States is the problem with providing administrative funds in advance. It is hard to predict where trade-affected workers will be concentrated. If the administrative funds were allocated by the same formula as Wagner-Peyser grants (the Federal grants which are the main source of funding for the State employment security agencies), the funds might turn out to be poorly matched with the number of workers certified for TAA benefits. This is speculative, however. There is no reason to believe that TAA certifications accurately reflect the geographic or industrial distribution of trade-affected workers. Some States have done a much better job of outreach than others, and labor unions are active in submitting petitions, so that unionized workers have a better chance than non-union workers to be certified. Wagner-Peyser grants are allocated by a formula that takes account of the size of the State's labor force and its rate of unemployment. If advance allocation of TAA administrative funds succeeded in getting State agencies to do better outreach, the result might be a wider and more equitable distribution of TAA benefits than exists at present. It probably would also raise demands for funding for the program.

If advance allocation of administrative funds appears desirable, one option might be to allocate a portion, not necessarily all of it.

Industrywide Certification.—The Labor Department recently improved turnaround time for TAA petitions by simplifying procedures and delegating to its regional offices some of the tasks of collecting information. However, even if all decisions are made within the statutory limit of 60 days, a delay of several weeks makes it impossible to deliver adjustment services promptly to TAA-certified workers. One proposal to reduce delays is to certify whole industries, so that all workers displaced from jobs in those industries are automatically eligible for TAA benefits. Industry certification might also make eligibility more predictable and more equitable.

A difficulty with industry certification is that, as eligibility becomes more equitable and widespread, needs for funding to serve the larger number of eligible workers would rise. In addition, it may not be a simple matter to identify trade-affected industries. H.R. 3, the trade bill passed by the House in April 1987, in the 100th Congress, provides for automatic approval of petitions from workers losing jobs in industries that the International Trade Commission (ITC) has found, under Section 201 of the Trade Act of 1974, to be seriously injured by imports. (The workers' petitions would have to be filed within 3 years of the finding of serious injury.) Section 201 findings are few and quite limited, however. In responses to twelve Section 201 petitions in fiscal years 1984 through 1986, the

ITC found only four industries to be seriously injured by imports, and some of those industries were very narrowly defined; one, for example, was wood shingles and shakes.[7]

A fundamental problem with using ITC findings as a basis for industry certification is that these findings are made for entirely different purposes. In the case of Section 201 findings, the purpose is to allow a nation to provide some import relief, which would otherwise be illegal under the General Agreement on Tariffs and Trade, to hard-pressed domestic industries. Probably one reason there has been so little use of this "escape clause" is that import relief for domestic industries, even if justified by a finding of serious injury, has important repercussions on the economies of both the United States and our trading partners.

Another possibility is to certify industries that have an ITC finding of import injury in relation to charges of dumping by foreign competitors, or of government subsidies that give competitors an unfair advantage (anti-dumping and countervailing duty investigations, under Title VII of the Tariff Act of 1930). These findings are much more numerous than those under Section 201—56 in fiscal years 1984-86, compared to 4 under Section 201.[8] These findings, although somewhat broader than those under Section 201, still tend to be quite specific. In 1985, for example, of 129 investigations completed, 56 involved narrowly defined steel products such as hot-rolled carbon steel plate, carbon steel wire rod, stainless steel sheet and strip, welded carbon steel pipes and tubes, stainless steel wire cloth, carbon steel sheets, and steel wire nails.[9] Also, these findings are made only in connection with charges of dumping or subsidies, and thus do not cover the whole range of industries that might be import-affected. Using the ITC finding of import injury as a trigger for certification of an industry would be at best a partial answer to certification of workers by industry, rather than by individual firm.

Along the same line, another trigger for industry certification might be the existence of trade agreements by which other countries voluntarily agree to limit exports of certain articles to the United States. An example is the Voluntary Restraint Agreement for autos, which Japan observed from 1981 to 1985 (and continues to observe voluntarily through 1987), the Multifiber Agreement (negotiated in 1974) covering textiles and apparel, and a number of Orderly Marketing Agreements.[10] These agreements might be taken as evidence that American industries are seriously threatened by foreign competition in the items covered.

Another possible approach is allow industries, as well as firms, to petition for certification as trade-affected. To decide on the petitions, the Labor Department would need to identify trade-affected industries. This might be done by examining data for employment trends, import penetration in the U.S. market, import levels, exports, and share of world markets, by industry. A part of the responsibility for such an effort already rests with the Departments of Labor and Commerce; Section 282 of the Trade Act directs them to monitor changes in U.S. imports and related domestic production and employment. However, data on exports and world market shares are more limited. A 1982 paper by a Bureau of Labor Statistics economist analyzed 318 manufacturing industries at the four-digit SIC level, and concluded that 72 were "import sensitive," that is, had experienced either a sustained high level or a substantial increase in import share of U.S. sales during 1972-79.[11] Of 79 industries producing goods similar to those in the import-sensitive group, 38 showed employment declines over the period; more than half of these were in the textile, apparel, and leather goods manufacturing businesses. The Labor Department has not repeated this analysis, but the data to do so are available.

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[7] The industries receiving an affirmative finding of serious injury from imports in fiscal years 1984-86 were certain carbon and alloy steel products, unwrought copper, non-rubber footwear (1985), and wood shingles and shakes. Negative findings were made for stainless steel flatware, non-rubber footwear (1984), canned tuna, electric shavers and parts, certain metal castings, apple juice, and steel fork arms. The fact that non-rubber footwear was turned down for a finding of serious injury in 1984 and accepted in 1985 suggests that these findings may not be very predictable or consistent.

[8] This includes all final affirmative findings under the anti-dumping and countervailing duty provisions of the Tariff Act. Final affirmative findings, made after a final investigation by the ITC and the Department of Commerce, indicate that "a U.S. industry is materially injured or threatened with material injury, or the establishment of such an industry is materially retarded, by reason of imports of merchandise that is being sold at less than fair value (i.e., dumped) or is benefiting from foreign subsidies." (U.S. International Trade Commission, *Annual Report '85* (Washington, DC: U.S. Government Printing Office, 1986), p. 2.) Preliminary affirmative findings are made after a preliminary investigation by the ITC, and indicate that "there is a reasonable indication" of injury. (Ibid.) There were 208 preliminary findings of injury in the 3 years 1984-86.

[9] Ibid., p. 3.

[10] The number of these agreements in force is, at present, unknown. The Department of Commerce and the Office of the U.S. Trade Representative told OTA that there is no current count of such agreements, but the USTR plans to make a compilation and keep it up to date.

In its program of industrywide technical assistance under TAA, the Department of Commerce needs to identify import-affected industries. The Department's method is, first to define the industry by four-digit SIC, and then determine whether it has a significant number of firms, worker groups, and workers certified as eligible for TAA. Then, the Department examines trends in import penetration ratios and levels of imports over several years. The Department also considers ITC findings of import injury (if any), and examines data developed by industry representatives on particular product lines, especially for industries that don't neatly fall into SIC codes. Because the Commerce Department does not need to be comprehensive in selecting industries for technical assistance, but can be selective, it is not an exact model for possible industrywide TAA certification for workers. It can be useful as a guide, however, in how to identify trade-affected industries.

Because of lack of experience, there are many uncertainties in both the method and results of certifying workers for TAA benefits by industry. For example, the impacts from foreign competition are now so widespread throughout American manufacturing industries, that the result might be to open the TAA program to nearly all workers displaced from manufacturing jobs. The total number of workers displaced per year because of plant closings and production cutbacks is about 2 million per year; about half (approximately 1 million per year) are from manufacturing industries. If Congress is interested in pursuing the idea of industrywide certification for workers, it might direct government agencies, such as the Departments of Labor and Commerce, to undertake a study of possible methods of identifying the industries and the number of workers likely to be covered, with results reported back to Congress within a reasonable time (e.g., 1 year).

Other Problems of Equity.—A continuing problem of equity in TAA certifications is that workers in service and supply industries are not eligible. For example, many workers in oil and gas exploratory drilling have been denied certification because they were considered service industry workers. (Others were turned down because the Labor Department did not consider imports to be the cause of distress in the industry.) Several bills in both the 99th and 100th Congresses proposed to extend eligibility to all oil and gas workers. More generally, the legislation that would have reauthorized TAA, but failed to pass Congress in December 1985, (the Consolidated Omnibus Budget Reconciliation Act) would have extended eligibility to workers in firms providing essential parts or essential services to the firms injured by import competition. S. 23 introduced by Senators Roth and Moynihan in the 100th Congress, contains the same provision. This broadening of eligibility, like industrywide certification, would result in opening TAA benefits to more workers, and raising costs. COBRA proposed to generate funds for TAA from a new source, a small uniform duty on all imports (described in the section on funding, below).

A more specialized problem, but one that affects a good many workers, has to do with the date of the worker's separation. Under the present law, workers may receive income support payments (Trade Readjustment Allowances, or TRAs) during a 2-year period following their first layoff after the impact date established for their firm. Often during a firm's decline, workers are repeatedly rehired and laid off; since the clock for TRAs starts to run from the date of their first layoff they may be denied full benefits. Congress addressed this problem in the last authorization of TAA, by extending the period of eligibility from 1 year to 2 years after the first date of separation; some workers, however, still run into a cutoff of benefits, while coworkers who were not rehired and laid off repeatedly may receive full benefits. One bill before the 100th Congress (S. 749, introduced by Senators Mitchell and Heinz) would amend TAA to allow workers to collect TRAs during the 2-year period following their last, not first, date of separation.

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[11] Gregory K. Schoepfle, "Imports and Domestic Employment: Identifying Affected Industries," *Monthly Labor Review*, August 1982, pp. 13-26.

If Congress wishes to attempt to reduce delays in TAA certification, it might consider the following:

- through legislative oversight, encourage the Department of Labor to offer more information and technical assistance to State employment security agencies on the TAA program and urge them to take a more active role in getting petitions submitted early; alternatively, require in legislative language that States inform workers of TAA benefits and procedures when workers register for UI, and facilitate the early filing of TAA petitions;
- provide by law for the allocation of TAA administration funds in advance;
- direct the Labor Department to give automatic approval to petitions from workers in industries with findings of import injury from the ITC or industries covered by voluntary agreements with other countries that restrict their exports to the United States; or
- direct the Departments of Labor and Commerce (and any other appropriate agency) to undertake a study of possible methods for industrywide certification of TAA workers and the number of workers likely to be covered, with a date set for submission of the study report to Congress.

Some of the above options might make TAA benefits available to a larger number of workers and at the same time distribute the benefits more equitably. Another option for more equitable and broader eligibility that Congress might wish to consider is to:

- extend TAA eligibility to workers in firms that supply essential supplies and services to firms injured by import competition.

Emphasizing Adjustment Services

Several times in the 25 years of TAA's existence, Congress has made changes in the program to reemphasize its original purpose, that is, to provide services that will help trade-affected workers find or train for new jobs that are reasonably well-paid or offer opportunities for advancement. In the 1980s, training and relocation services have become a more significant part of the program, in relation to TRAs. Under the present law, workers must take part in a job search skills training program or job club (if either is reasonably available) in order to receive TRAs, must be advised of training opportunities, and must enroll in training if advised to do so.

A number of proposals put before Congress would tie TAA benefits still more tightly to training. In the 1985 legislation that would have reauthorized TAA, Congress included a requirement that any worker collecting TRAs must be enrolled in training or remedial education. In 1986, when the legislation was passed, the requirement for training was removed. Bills before the 100th Congress reinstated it. For example, H.R. 3, the House-passed trade bill, would require workers receiving TRAs to be in training or remedial education. Workers would be exempt only if they had already completed training, or if they had a reasonable prospect of recall to the old job, or if training were not considered feasible or appropriate. S. 23 would also require that workers receiving TRAs be in training, unless State agencies waived the requirement because training was not feasible or appropriate.

Several problems arise with a requirement that workers receiving TRAs be in training. First, funding for training would have to be greater than it is now. Training funds were virtually exhausted before half the fiscal year was out in 1987, even with no requirement for training. The Labor Department estimated that about 55,000 workers would receive TRAs in fiscal year 1987; as noted above, that figure is probably low, but it can serve as the basis of a rough estimate of training costs. Assuming on the basis of recent TAA figures that spending for training is about $2,500 to $3,000 per worker per year (not counting TRAs), the annual cost of training for 55,000 workers would be about $138 to $165 million, or approximately $110 to $127 million more than in 1987. Both H.R. 3 and S. 23 provide that workers are entitled to vouchers of $4,000 for approved training, remedial education, or relocation services and the money may be spent over 104 weeks of training. Both bills also contain a provision for a small import duty as a new source of funding (see the discussion below).

Another concern is that not everyone needs or can benefit from training. For example, some older workers who plan to work for only another few years may not want to make the investment of time, effort, and forgone income that training requires. (No implication is intended that older workers cannot benefit from training; some can and do.) A related problem is that linking TRAs to training might artificially inflate the demand for training. One option that might reduce these difficulties is to allow workers to use a portion of their TRAs as a temporary wage supplement, easing the transition for workers for whom retraining is not appropriate. This option was included in H.R. 3; it would allow workers taking a new job at lower pay than the old job to collect 50 percent of their TRA benefits as a supplemental wage allowance over a period of 1 year, beginning when regular UI payments end. The reasoning is that the supplemental wage would encourage workers to take new jobs faster than they otherwise would, and begin to restore some of their lost earning power. The allowance would be limited to an amount that would raise the worker's pay to a maximum of 80 percent of the pay on the old job.

In analyzing for an earlier assessment the option of a temporary supplemental wage for all displaced workers,[12] OTA noted that there is little or no experience with a publicly funded program of this sort, and cost estimates are highly uncertain. A rough estimate of the cost of such a program as proposed in H.R. 3 is about $33 million per year for every 10,000 workers. This estimate assumes that the wage supplement program pays, on average, the difference between $7.80 per hour (80 percent of the average manufacturing wage of $9.80 per hour in early 1987) and $6.20 per hour (the average reemployment wage of workers who went through Title III programs and found jobs in 1986).[13] Any estimate of how many workers would be covered in such a program, and how many would be removed from the rolls of those receiving full TRAs, must be highly speculative because of the novelty of the program. In light of the large uncertainties involved, OTA suggested in the earlier assessment that if Congress is interested in the proposal, a trial or demonstration program might be a practical first step.

According to the directors and staff of displaced worker projects, many of their clients—typically, 20 percent or more—need remedial education to improve their basic skills in reading and math. Although States may offer remedial education as one of the services in Title III projects, not many do.[14] Trade-affected workers are probably just as much in need of basic skills training as other displaced workers, but remedial education is very infrequently offered as a TAA benefit. In its TAA regulations, the U.S. Department of Labor classifies remedial education as a support service, unless it is an integral part of a vocational skills training course. Payment for support services must come from administration funds, not training funds; no States reported to OTA that they use administrative money for this purpose. The 1986 legislation reauthorizing TAA states that any training program provided by States in Title III projects may be approved as TAA training; a number of States approve remedial education as training under Title III (although not many actually include it among the services offered), and all could approve it if they wished. If Congress desires that remedial education be offered as training in the TAA program, it could direct the Department of Labor to approve this use of TAA training funds.

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[12] U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit., pp. 61-62.

[13] The supplement on an hourly basis would be $1.60, which is $64 per week and $3,328 for 1 year. This is within the limit of 50 percent of the average TRA benefit paid in 1987, which was $147 per week.

[14] U.S. Congress, Office of Technology Assessment, *Technology and Structural Umemployment*, op. cit., pp. 185-186, 260-261.

Implementing a training requirement through a voucher system, as proposed in several bills before Congress, might raise some other problems. Many experienced directors of displaced worker programs believe that their clients benefit greatly from guidance in selecting training courses. It is not uncommon for displaced workers to have held just one job in their lives; often they have little knowledge of the local labor market, or training institutions, or the kind of training that their background and skills are best suited to. In addition, a voucher system raises the danger that workers may be victimized by trainers who are in it for the money. When training is not just one option, but is required for anyone receiving TRAs, this problem could assume greater proportions. Coordination of TAA and Title III programs, with emphasis on adequate counseling and guidance of TAA-eligible workers in one program or the other, could help to avoid the danger of misguided or wasted training.

Some of the options that Congress may wish to consider for emphasizing adjustment as the goal of the TAA program for workers are the following:

- require that recipients of TRA benefits be enrolled in approved vocational skills training or remedial education programs, with some exceptions, e.g., for workers who may be recalled to plants that are still in operation, for workers beyond a certain age, or for cases where training is not feasible or appropriate;
- support a demonstration program of temporary wage supplements for TAA-certified workers taking a new job at a substantial cut in pay; and
- direct the Department of Labor to approve spending of TAA training funds for remedial education.

Funding

Many of the options discussed above imply a higher level of funding than is currently spent for TAA. In fiscal year 1987, Congress appropriated $29.5 million for training and relocation services (including 15 percent for administration); and when demands for the funds outran the supply, a supplemental appropriation of $20 million was approved by the House (the Senate Appropriations Committee had reported the bill, but the Senate had not yet acted on it as this report was written). In addition, spending for TRAs, from the Federal Unemployment Benefits Account, was running at the rate of $176 million for the year.

A number of proposals before the 100th Congress provided for increased spending for services to displaced workers. Both the Administration bill, which would replace JTPA Title III with a new Worker Readjustment Program, and H.R. 3, which amends Title III as well as TAA, would authorize $980 million a year for retraining and readjustment programs open to all displaced workers.

For funding the TAA program for workers, the idea of a small uniform duty (up to 1 percent) on all imports has come up several times. It was included in the legislation which was reported by the conference committee, but failed to pass the Congress, in December 1985. That version directed the President to undertake negotiations to change GATT so that any country could impose a small duty on imports for the purpose of funding a program of adjustment to import competition. The President was directed to report on progress on the GATT negotiations in 6 months, and the duty would be imposed as soon as there was agreement—but in any case, whether or not agreement was reached, the duty would take effect 2 years after enactment of the law. The bill also would have established a trust fund to pay for the TAA program for workers, with amounts equal to the proceeds of the import duty earmarked for the trust fund.

A similar proposal was before the 100th Congress, in S. 23. H.R. 3, the House-passed trade bill, provides for a trust fund supported in part by a small import duty, but would let the duty take effect only when GATT is changed to allow it.[15] Those who propose negotiating with GATT, but imposing the duty anyway after a certain period, argue that a small duty for funding an adjustment program is reasonable, is not a serious barrier to trade, and that GATT negotiations are usually so slow that a time limit is needed to impel action. Those who oppose it argue that any unilateral action that contravenes GATT undermines the treaty and opens the door to protectionist actions by all countries.

The proposal to support the TAA program through a trust fund is not new. The Trade Act of 1974 provided for it, but the trust fund was never established. The Office of Management and Budget generally opposes earmarking funds for any activity, advocating instead that programs contend on their merits each year for a share of general revenues; this was true in the Carter Administration as well as in the Reagan era. Although laws can be written so that services funded by trust funds are not granted automatically but still require approvals by the responsible agency, the tendency may be to lose budgetary control.

The argument for a trust fund is that it is difficult to anticipate the magnitude of worker displacement, from trade or any other cause, and that it makes more sense to draw from a trust fund as needed than to set appropriations at the right level in advance, or to add funds through the uncertain and usually slow process of supplemental appropriations. Proponents sometimes draw the parallel with the unemployment insurance trust fund accounts, which are supported by variable UI tax rates. In a like manner, the uniform duty on tariffs could be varied (up to the limit of 1 percent), to replenish the account when spending has risen, and to lower the duty when spending falls. To maintain control over spending, Congress might set a limit on the total that could be spent in any year.

Other funding arrangements might also be devised. For example, the Forest Service draws the funds needed to fight fires from a special account, which Congress then replenishes through supplemental appropriations. A number of different kinds of trust funds, with restrictions on spending from them, exist in various Federal Government agencies; some might provide a useful model for the TAA program. The principle in a trust fund or other new funding arrangement would be to make money available when needed for services to trade-affected workers, but keep total spending under control.

TAA for Firms and Industries

Continued Existence

In reauthorizing the TAA program for firms in 1986 and appropriating funds for it, for that fiscal year and the next, Congress made a decision to continue the program. Commerce Department administration of the program from January 1986 through the spring of 1987 almost brought it to an end. At the end of April 1987, more than halfway through the fiscal year, only $2.2 million of the $13.9 million Congress provided for technical assistance to trade-affected firms and industries for that year had been obligated, and money carried over from the previous year was diverted to other uses. The Trade Adjustment Assistance Centers, which deliver technical assistance to firms, had been given only brief 1- or 2-month extensions of authority (mostly no-cost extensions), and were able to do little more than keep their doors open.[16]

In the Budget and Impoundment Control Act of 1974, Congress tried to deal with the problem of an Administration refusing to spend money Congress had appropriated to carry out a program. Under terms of this law, the Administration proposed in January 1987 a rescission of fiscal year 1987 funds for the TAA program for firms. The proposal remained before Congress for the 45 days provided by the law, and in mid-March, since Congress had taken no action, the rescission failed. Through that period, only three TAACs received any fiscal year 1987 money. After the rescission failed, the TAACs received extensions only through mid-June, and were given small grants.

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[15] This bill would also support the trust fund with money raised from import relief duties and from public auction of import licenses.

[16] In early May, the Department of Commerce requested refunding proposals from the TAACs for the 12-month period June 1987 to May 1988.

A spokesman for the General Accounting Office informed OTA that this situation, under which the Administration had released only small amounts of the funds appropriated for technical assistance to firms, was being investigated as a possible policy deferral, as described in Section 1013 of the Budget Act; in a policy deferral, the Administration seeks to withhold funds to achieve the President's policy, as opposed to that of Congress. If GAO found that the failure to spend funds for the TAA program for firms was a policy deferral, Congress could deal with the situation, as it has done in several deferral cases in the past, by enacting a law directing the President to spend the appropriated funds as originally provided by Congress.[17]

The Administration has also asserted that the President has inherent authority to defer spending, unless Congress has mandated a schedule of expenditures. One option that is open to Congress, if it wishes to assure that Trade Adjustment Assistance Centers receive grants soon enough and for a long enough period to get some substantive work done, is to mandate a date by which 12-month grants for the TAACs must be approved. For example, Congress might direct by law that by December 31 of each year (the end of the first quarter of the fiscal year) the Commerce Department must approve 12-month grants extending through the end of the next calendar year for all the TAACs. Thus, all the money appropriated for TAA assistance to firms for the fiscal year would be obligated in a timely way. Experience in fiscal year 1987 suggests that legislative guidance through congressional hearings might not be sufficient to assure the continued existence of the TAA program for firms. Also, if Congress desires the program to continue, it may need to anticipate a period of rebuilding. It may take some time—possibly a year or more—for TAACs to rebuild their staffs, services, and credibility with clients.

One reason the Administration wishes to end the TAA program for firms is that it considers the program ineffective. Neither of the two recent evaluations of the program (which came to opposite conclusions) is satisfactory. In considering the future of the program, Congress might wish to request an independent evaluation of TAA for firms, including an analysis of the social costs and benefits of the program, from the Congressional Budget Office or the General Accounting Office. A rigorous cost-benefit analysis might prove an unduly expensive way to evaluate this rather small program. However, a less rigorous analysis might provide enough information to judge whether benefits from a very few successful interventions are enough to pay for the modest costs of the program.

Industrywide Certification

It has been suggested that the TAA program for firms might be more productive if all firms within a trade-affected industry were eligibile for technical assistance—not just those that have already shown a decline in sales or production and employment.[18] The idea is to open TAA benefits to firms that have a better chance of survival.

One difficulty with this approach, as with industrywide certification of workers, is that the population of firms eligible for assistance would balloon. Unless the program received more funds, the TAACs would be faced with greater selection and screening problems than they have now; unlike the situation with TAA for workers, there are no current proposals for a new source of funds for TAA for firms. Nor is there quite the same justification for industrywide certification. One of the strongest findings from experience with displaced workers programs is that the earlier adjustment services start, the better the results; the best time to begin services to workers is before layoff, if that is possible. It is true that, for firms, there is a point after which assistance is not much use; the firm is too far gone. But no one has identified one key point for offering assistance that promises the best results. Most of the TAAC directors and staff interviewed by OTA said that quite a few of the firms applying for certification have enough financial or managerial strength that they can benefit from assistance. One said:

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[17] Sec. 1013(b) of the Budget and Impoundment Control Act gave Congress authority to disapprove policy deferrals by a vote of either the House or the Senate, after which the Comptroller General could sue the responsible department or agency to spend the funds as provided by Congress. However, a Circuit Court of Appeals decision has held Sec. 1013(b) invalid, following the 1983 Supreme Court decision declaring a congressional veto unconstitutional (*Immigration and Naturalization Service v. Chada*, 1983).

[18] H.R. 3, the House-passed trade bill, provides for automatic approval of petitions from firms, as well as workers, from industries found by the ITC to be seriously injured by imports. As noted, these certifications are few and often quite narrow.

> All of them are in some kind of trouble, or they wouldn't come to us and wouldn't be certified. But it isn't true that they all have one foot in the grave and the other on a banana peel.

The best argument for making technical assistance available to all firms in trade-affected industries is that such a program, if well done, might help to improve competitiveness of our national economy. But to expand the present small, barely surviving TAA program to such dimensions would be a very large leap. The idea of an industrial extension service for small and medium-sized manufacturing industries is an intriguing one, but is probably best approached in several steps, with consideration of a number of factors—for example, whether States might play a leading role, building on services that some of them already offer. Such an assessment is beyond the scope of this report, with its focus on TAA programs as they exist now or as they might be changed incrementally.

TRADE ADJUSTMENT ASSISTANCE: HISTORY

Trade Adjustment Assistance was created in the Trade Expansion Act of 1962, as recompense for workers and businesses hurt by the Nation's policy of lowering trade barriers. The program was intended not as a payoff but as an aid to adjustment. "This cannot and will not be a subsidy program of government paternalism," said President Kennedy in announcing the trade bill that created TAA. "It is instead a program to afford time for American initiative, American adaptability and American resiliency to assert themselves." Two linked motives for TAA were fairness—the obligation, as President Kennedy said, "to render assistance to those who suffer as a result of national trade policy"—and the need to find a different way than protective tariffs or quotas to cope with the disruptive effects of trade.

In principle, the TAA approach, offering adjustment assistance in place of protection, fits with a policy of free trade. In practice, questions have been raised since TAA was created on whether the adjustment assistance was really working. Was TAA meeting its goal of helping displaced workers train for and find new jobs and helping businesses adapt to the challenge of rising imports? Is it reasonable to expect that firms losing out to imports can recover, even with good technical assistance?

Another recurring question had to do with fairness: Is it equitable or even possible to distinguish between job losses due to trade and losses due to other (but related) factors, such as advances in technology or changes in consumer preference? Does the worker who loses a long-held job because of import competition need more help than his neighbor who loses out to automation? Or is there a special responsibility to workers affected by trade? A national program to help all displaced workers find or train for new jobs was created in Title III of the Job Training Partnership Act of 1982 (JTPA), but TAA has some benefits that do not exist in the Title III program.

Arguing that trade-affected workers can be served in a program open to all displaced workers, the Administration has proposed to abolish TAA, to replace Title III of JTPA with a new worker readjustment program, and to authorize funding for the new program at about twice the current level of TAA and Title III funding combined. The Administration bill does not, however, include all the benefits now available to TAA-certified workers. While proposing to end TAA for workers, the Administration took more forceful action to close out the TAA program for firms, asking for a budget rescission in 1987 (which Congress did not approve) and meanwhile granting such short-term low-level funding that program activities virtually ceased.

Trade Adjustment Assistance for both workers and firms continues to have strong support in Congress. The equity argument, that special help is due those who are injured by the Nation's trade policy, is widely accepted across party lines. In 1986, Congress reauthorized TAA and extended it for 6 years, through the end of 1991. While rewriting trade legislation in the spring of 1987, Congress again considered substantial changes in TAA, in particular the program for workers. The emphasis in the proposed changes was on making adjustment services stronger and more flexible.

This section outlines briefly the experience with TAA over the past quarter of a century. The next two sections discuss issues related, first, to the current operation and future of the program for workers and second, to the program for firms and industries.

Trade Adjustment Assistance for Workers, 1962-87

Over its 25 years, TAA for workers has been much more a compensation than a training program, whatever the intentions of its founders. The benefits TAA offers to trade-affected workers are extra income maintenance (more than unemployment insurance provides) and training and relocation assistance. Of $4.5 billion spent on the program over the years, more than 97 percent has gone for income maintenance;

nearly all the workers certified for TAA have received this benefit. However, training has been a stronger part of the program in the 1980s; training and relocation assistance has accounted for about 25 percent of spending since 1982. Demands for training were great enough in early 1987 that the appropriation for the fiscal year—$29.9 million—was nearly exhausted at the end of the first quarter.

Spending for TAA and the number of workers served has fluctuated greatly over the years. Almost inactive for the first dozen years, the program grew to large proportions by 1980 (costing $1.6 billion that year), was restructured and sharply reduced in the early 1980s, and is now again expanding. It is a sizable program today. In addition to the $29.9 million for training and relocation assistance, spending for income maintenance is projected to be $176 million for fiscal year 1987. If workers continue to be certified at the same rate as in the first two quarters of the year, 110,000 to 140,000 workers will have become eligible for benefits during the year.[1] Both in amount of spending and in number of workers served, TAA is now about as large a program as the general program, under Title III of the Job Training Partnership Act of 1982, which is open to all displaced workers.

Administration of TAA for workers is divided between the State employment security agencies and the U.S. Department of Labor. The Labor Department makes the decisions on certifying groups of workers as trade-affected, according to the criteria in the law. The State agencies, under cooperative agreements with the Labor Department, determine the eligibility of individual workers covered by a certification, and process applications for benefits. The Unemployment Insurance (UI) offices take charge of income maintenance payments, and the Employment Service (ES) is responsible for helping workers find jobs or training opportunities.

Creation and Early Years: 1962-74

The Trade Expansion Act of 1962, authorizing the Kennedy round of trade negotiations under the General Agreement on Tariffs and Trade (GATT), also created Trade Adjustment Assistance. Labor spokesmen strongly supported the adjustment program as a part of the law. George Meany, president of the AFL-CIO, told the Senate Finance Committee:

> There is no question whatever that adjustment assistance is essential to the success of trade expansion. And as we have said many times, it is indispensable to our support of the trade program as a whole.[2]

To the House Committee on Ways and Means he said that TAA would:

> . . . strengthen both our domestic economy and our world competitive position by helping companies and workers to increase their efficiency, either in their present field or a new one.[3]

Eleven years later, labor support for TAA had evaporated. Meany called TAA "burial insurance" and said that "adjustment assistance cannot solve modern trade problems."[4] By the early 1970s, there was good reason, aside from the success or failure of TAA itself, to reevaluate trade policy. Economic and trade conditions had changed. The United States had gone through a recession in 1970, and in 1971 and 1972 experienced its first merchandise trade deficits in many decades. However, there was also a quite specific reason for labor's disaffection with TAA, which was that very few workers had benefited from it. The eligibility requirements as laid out in the 1962 law and as interpreted by the administering agency, the U.S. Tariff Commission, were so restrictive that no one qualified from 1962 till 1969. The Tariff Commission then reinterpreted the eligibility rules, and for the first time approved some petitions; still, only about 54,000 workers had been certified for benefits by 1975.

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[1] Nearly 48,000 workers were certified in the first quarter of fiscal year 1987, and about 22,000 in the second quarter. The Labor Department simplified and speeded up the certification process at the beginning of the first quarter. Thus, the exceptionally large number of certifications in the first quarter probably reflects the Department's efforts to reduce a backlog of petitions If certifications for the last half of the fiscal year run at the rate of the second quarter, the total for the year will be about 114,000.

[2] Hearings before the Committee on Finance, U.S. Senate, July 24, 1962, cited in Steve Charnovitz, "Worker Adjustment: The Missing Ingredient in Trade Policy," *California Management Review*, vol. xxvii, No. 2, winter 1986.

[3] Hearings before the Committee on Ways and Means, U.S. House of Representatives, Mar. 19, 1962, cited in Steve Charnovitz, op. cit.

[4] Hearings before the Committee on Ways and Means, U.S. House of Representatives, May 17, 1973, and the Committee on Finance, U.S. Senate, March 27, 1973, cited in Steve Charnovitz, op. cit.

The TAA benefits for workers provided in the 1962 law were training, relocation assistance, and extra income maintenance, at a higher level and for a longer time than UI afforded. The idea was that workers who lost their jobs because of trade were likely to go through longer than average spells of unemployment, and needed time to train in new skills. Income support was in the form of Trade Readjustment Allowances (TRAs) which, combined with UI, could pay up to 75 percent of the worker's former wage and could last for a full year, or 65 weeks for workers at least 60 years old. The TRA alone, after unemployment insurance ran out, could pay as much as 65 percent of the worker's former wage or 65 percent of the average manufacturing wage, whichever was lower; UI paid less than that in many States, and was generally limited to 26 weeks.

The law emphasized training. Congressional debate on the bill also showed that its backers expected training to be a prominent feature of TAA; the floor manager in the House of Representatives said that most workers getting TRAs would:

> . . . [receive] an intensive training program which will be aimed at getting these workers trained in skills which will enable them, in as short a time as possible, to take their rightful place in the economy.[5]

Any eligible trade-affected worker could get training free, if referred by the Department of Labor. Moreover, workers could collect an additional 26 weeks of TRA (a total of 78 weeks) while in training. The law directed the Labor Department to disqualify workers for TRAs if they refused suitable training when referred to it, or failed to make satisfactory progress.

The law also included a relocation benefit. For workers who could find a suitable job only outside their commuting area, TAA offered reimbursement of "reasonable and necessary expenses" (to be prescribed by regulation) of moving a worker and his family and household, and a lump sum payment, equal to two and one-half times the average weekly manufacturing wage, for other related expenses.

The benefits under the 1962 law remained mostly theoretical. To become eligible, a group of three workers, or their representative, or the company, had to petition the Tariff Commission, which then determined whether "as a result in major part of concessions granted under trade agreements" increased imports were causing or threatening to cause unemployment or underemployment of a significant number or proportion of workers in a firm or subdivision. Until 1969, not one petition was approved. Over the next 5 years, about 46,000 workers received TRAs; no complete record was kept of those receiving training, but they were few, according to the Department of Labor.

Years of Expansion: 1975-81

In the Trade Act of 1974, Congress revised the framework for trade negotiations, to guide the forthcoming Tokyo Round of GATT trade talks, and at the same time restructured TAA. The biggest change in TAA for workers was to ease the eligibility requirements. The new law no longer required proof that trade concessions caused injury to firms or workers, or even that imports were a major cause, but only that increased imports "contributed importantly" to the injury. It created two criteria for injury: 1) an absolute decline in sales, production, or both, in a firm or subdivision; and 2) actual or threatened total or partial layoffs of a significant number or proportion of the workers.

Another major change was to raise benefits. TRAs were now set at 70 percent of the worker's previous wage and capped at 100 percent of the national average manufacturing wage; combined TRA and UI benefits could be as much as 80 percent of the previous wage. The period of eligibility for TRAs was still 52 weeks, except for people in training or workers 60 and over, who qualified for an extra 26 weeks. Recognizing that very little practical adjustment assistance had reached trade-affected workers under the 1962 law, Congress established a new trust fund drawing from tariffs to pay for the program. Also, the law added a new benefit which would repay workers 80 percent of the costs of searching for jobs outside their home areas (up to a maximum of $500). Finally, certification of workers for TAA was moved from the Tariff Commission to the Department of Labor.

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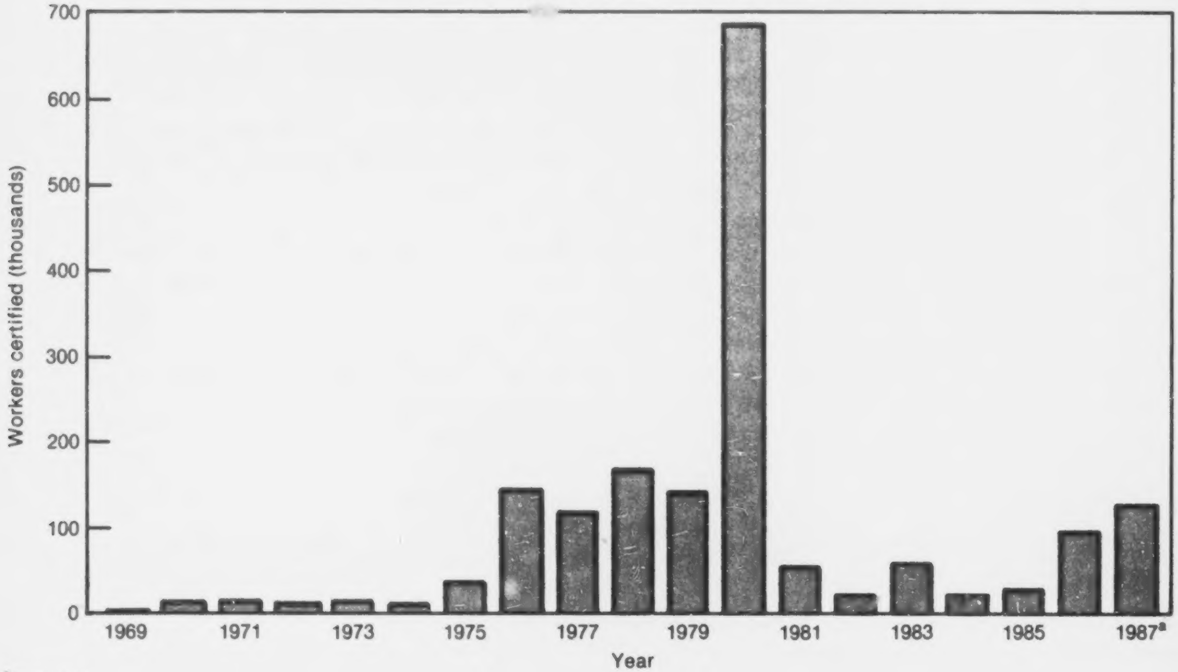
[5] Rep. Eugene Keogh (D-NY) was House floor manager. See *Congressional Record*, June 27, 1962, p. 1145.

Over the next 7 years, many more workers received TAA benefits, and far more money was spent, than in the first dozen years of the program (figures 1 and 2). At least some workers displaced by trade did receive compensation. But very few received any kind of adjustment assistance, and compensation was usually so late—typically beginning 14 to 16 months after layoff—that most workers were back at work, either at the old job or a new one, by the time they got their first payment. According to surveys of TAA during this period, two-thirds of the workers receiving TRAs were eventually recalled to their old jobs and thus were not really displaced—for the time being at any rate.[6]

In fiscal years 1975 to 1981, over 1.3 million workers were certified eligible for TAA benefits. Fully half of these workers were certified in one fiscal year (1980) when auto workers responded to rapidly rising imports and widespread layoffs with unprecedented applications for TAA benefits. Spending for the program,

Figure 1.—Workers Certified for TAA Benefits, 1969-87



aEstimated.

SOURCE: U.S. Department of Labor, Bureau of International Labor Affairs and Office of Trade Adjustment Assistance.

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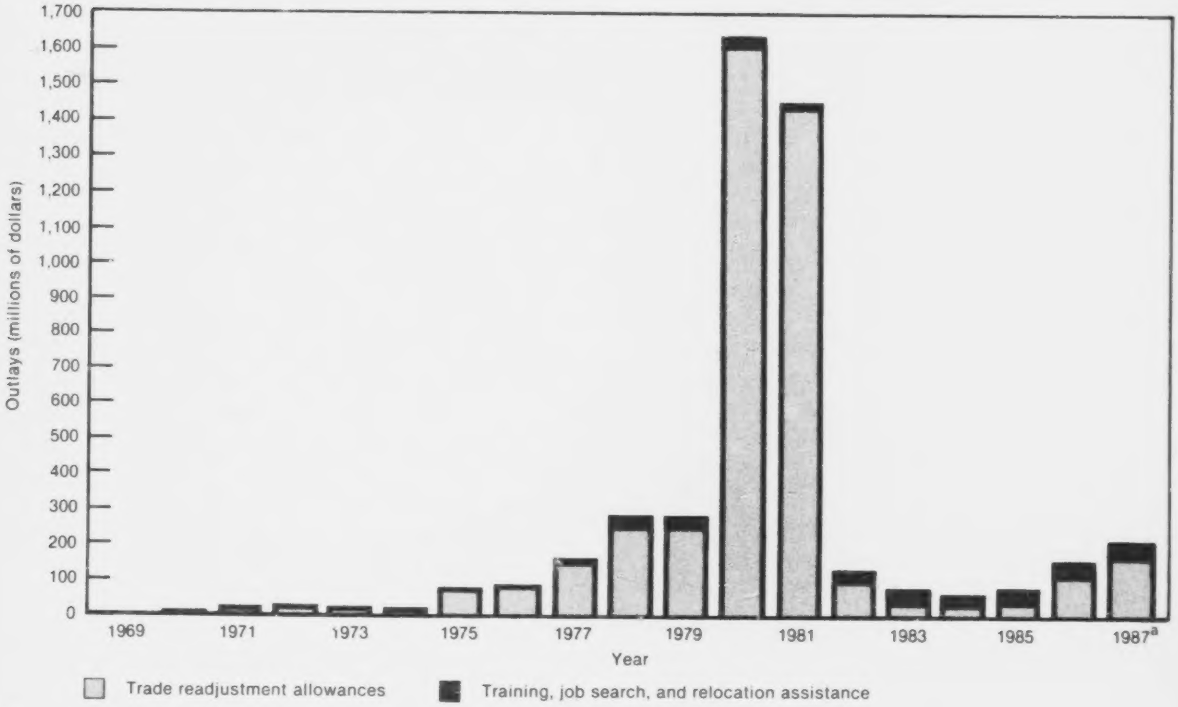
[6] Two of the most comprehensive reviews were U.S. Congress, General Accounting Office, *Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find a Job Can Save Millions* (Washington, DC: 1980); and Walter Corson, Walter Nicholson, David Richardson, and Andrea Vayda, *Final Report: Survey of Trade Adjustment Assistance Recipients*, report to the Bureau of International Labor Affairs, U.S. Department of Labor (Princeton, NJ: Mathematica Policy Research, Inc., 1979).

Figure 2.—Outlays for TAA Benefits for Workers, 1970-87



aEstimated.

SOURCE: U.S. Department of Labor, Office of Trade Adjustment Assistance; and U.S. Congress, House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, 1987 Edition*, 100th Cong., 1st sess., Committee Print WMCP:100-4, Mar. 6, 1987, pp. 318, 320.

which was about $150 million in fiscal years 1976 and 1977, and about $260 million in the next 2 years, soared to $1.6 billion in 1980 and $1.4 billion in 1981.

Nearly all of this money went for TRAs. Some 48,000 workers (4 percent of those certified) entered training. About 5,200 got out-of-area job search assistance and 4,400 relocation assistance; each of these services went to fewer than one-half of one percent of the certified workers. Of the $3.9 billion spent for the program in 7 years, only $43 million went for training, relocation, and out-of-area job search combined (table 1).

The TRAs, though no doubt welcome at any time, did not serve the purpose of income support during the time the workers were unemployed, since 50 to 70 percent were back at work by the time they got their first payment.[7] Several factors accounted for the delays. First, workers were slow to file petitions. Many did not know until months after their layoff that the program existed; and when they did discover TAA, did not know how to apply. The U.S. Department of Labor did not try to acquaint workers directly with the program, but urged the State employment security agencies, which administer TAA through the local ES and UI offices, to do so. The outreach system did not work well. Most workers who heard about TAA discovered it through their union,

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[7] The Mathematica study found that the average delay in receiving the first TRA payment was 14 months, and 50 percent of the recipients were reemployed. The General Accounting Office (GAO) found an average delay of 16 months and 71 percent reemployed. See Corson, et al., op. cit.; and U.S. Congress, General Accounting Office, op. cit.

Table 1.—Workers Certified for TAA, Trade Readjustment Assistance, and Adjustment Services, 1975-87

Fiscal year	Workers certified	Workers receiving TRAs	Outlays for TRAs (millions of dollars)	Number of workers			Outlays (millions of dollars)[a]		
				Entered training	Job search	Relocation	Job training	Job Search	Relocation
1975 (4th qu.)	34,879	47,000	71	463	158	44	—	—	—
1976	144,396	62,000	79	823	23	26	$ 2.7	$ [b]	$ [b]
1977	116,726	110,705	148	4,213	277	191	3.8	[d]	0.2
1978	165,866	155,005	257	8,337	1,072	631	12.0	0.2	0.6
1979	140,079	132,188	256	4,456	1,181	855	12.0	0.3	1.2
1980	684,766	531,895	1,622	9,475[c]	931	629	5.2	0.1	0.7
1981	51,072	281,426	1,440	20,366[c]	1,491	2,011	1.9	0.3	2.0
1982	19,465	30,463	103	5,844	697	662	18.4	[d]	1.0
1983	56,173	30,032	37	11,299	696	3,269	33.0	[d]	3.0
1984	19,688	15,821	35	6,821	799	2,220	16.5	0.2	2.3
1985	25,339	20,300	40	7,424	916	1,692	30.2	[b]	[b]
1986	93,132	42,000[e]	119[e]	7,743[e]	1,384[e]	1,089[e]	28.6	[b]	[b]
1987	110,000-140,000[f]	55,000[e]	176[e]	n.a.	n.a.	n.a.	29.9	[b]	[b]

[a] For 1986 and 1987, "outlays" are appropriations.

[b] Included in total for training.

[c] Of workers entering training in 1980, 5,840 (59 percent) paid for their own training costs; in 1981, 18,940 (94 percent) paid for their own training. Trainees were eligible for TRA living allowances.

[d] Included in total for relocation.

[e] U.S. Department of Labor estimate.

[f] OTA estimate.

NOTES: Trade Readjustment Allowances (TRAs) provide income support during unemployment or training. Job search expenditures are for job searches outside the workers' commuting area.

SOURCES: U.S. Congress, House Committee on Ways and Means, *Background Material and Data on Progams Within the Jurisdiction of the Committee on Ways and Means, 1987 Edition*, 100th Cong., 1st sess., Committee Print WMCP 100-4, Mar. 6, 1987, pp. 318, 320; U.S. Department of Labor, Office of Trade Adjustment Assistance.

co-workers, or the company, belatedly as a rule. Workers and unions typically lost 7 months in getting petitions filed, and another 2 or 3 months after the workers were certified, often because State agencies failed to notify them that they were now eligible for benefits.

The other main factors in the delay were that the Labor Department generally took much longer than the 60 days allowed under the law to process petitions for certification. As more petitions were filed, backlogs grew and delays of 5 or 6 months before certification were common. State agencies added more delays in checking out individual workers' eligibility and benefits. Thus, by the time the average claimant got his first check, 14 to 16 months had gone by.

These delays were part of the reason for the failure to deliver adjustment services. The majority of workers had taken a job in the year or more that it took for government help to reach them; at this point there was little to be done for them, other than giving them a lump sum retroactive payment. Also contributing to the failure was the fact that workers did not know that training or other adjustment services were available. One study found that only one-third knew about the possibility of training; one-fifth had heard of job counseling, testing, and job referral services; and one-eighth knew about the out-of-area job search allowance and reimbursement of moving expenses.[8]

Generally, the ES offices did not push these services. A principal reason was that the States never got any extra training or relocation funds for TAA-certified workers. Despite the provision in the Trade Act for a TAA trust fund, the Office of Management and Budget refused to set it up, arguing that employment and training services were available under the Comprehensive Employment and Training Act (CETA). Yet CETA was designed primarily for disadvantaged workers; the Department of Labor set aside only very limited CETA training funds for the TAA clients. Moreover, applying to CETA for training was both a bureaucratic and psychological hurdle for TAA-eligible workers. In fact, in the 2 years 1980-81, over 80 percent of TAA-certified workers in training paid their own tuition and fees; TAA did give them income support, however, in the form of TRAs.

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[8] Corson, et al., op. cit., p. 127.

Another likely reason for the neglect of adjustment services was that the Employment Service, which was supposed to provide them, had other clients to serve and other legally set priorities—in particular, to serve disadvantaged jobseekers. According to GAO, many officials and staff of the Labor Department's regional offices, State agencies, and local ES offices saw no reason why displaced trade-affected workers should go to the head of the queue for such services as testing, counseling, and referral to training.[9] Considering the scant attention given to training and the lack of funds for it, it is not surprising that the Department of Labor never enforced the provision under which TRAs could be withdrawn if a TAA client refused training that was recommended for him.

Even if training and relocation services had been offered much more effectively, it is by no means certain that many workers would have made use of them. At that time, few adult workers with a steady work history had experienced long-term displacement. Most had been through layoffs and recalls before, and probably expected to be recalled again, eventually. The old job usually offered better pay and benefits than any new job available through training, so that holding out for a recall seemed to many at the time a better choice than retraining. And they were right—at least for a brief time. Only later, in the 1980s, did widespread displacement and permanent loss of the old job become a reality for millions of adult workers.

While the TAA program expanded in the half dozen years after 1975, the mix of industries affected by trade changed considerably. In the earlier years, 1975-79, most of the certified workers were from the leather, shoe, textile, and apparel industries (see table 2). In 1980, auto workers accounted for most of the enormous rise in certifications. The soaring number of TAA-certified workers and the great rise in spending pushed the program into notoriety. The studies showing that the majority of TAA clients had gone back to their old jobs, that most were back at work when they collected TRAs, and that training and relocation services were scarcely used, made TAA a prime target for cost cutting as the Reagan Administration took office in 1981.

Cutback and Regrowth: 1981-87

In the Omnibus Budget Reconciliation Act of 1981 (OBRA) Congress reconstructed the TAA program for workers to cut its costs, pull away from income compensation for temporary layoffs, and once more emphasize training and other adjustment measures for the permanently displaced. The major change was to cut back TRA benefits. The TRA was reduced to the same level as the worker's UI payment (differing under various State laws), and payment could begin only after the worker's UI was exhausted. The overall limit for UI plus TRAs remained at 52 weeks, with 26 additional weeks for workers in approved training. The extra 26 weeks for older workers was abandoned.

OBRA extended the program for 1 year only. Later legislation extended it for another 2 years, and then for briefer periods through December 19, 1985, at which time authority temporarily lapsed, to be restored in April 1986.

No changes were made in the criteria for TAA eligibility,[10] but the number of workers certified dropped steeply after 1981, and so did spending. In fiscal year 1982, expenditures for TAA for workers were $121 million, less than one-tenth the levels of the 2 previous years, and for the next 3 years dropped still lower, to about $54 to $73 million. The number of workers applying for benefits declined from the 1980 peak, possibly because of a widespread misapprehension that the program was abolished. More important, the percentage of workers approved for certification by the Labor Department de-

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[9] U.S. Congress, General Accounting Office, op. cit., pp. 15-16.

[10] OBRA did tighten the criterion for eligibility slightly, but the change never took effect. The change was to require that imports be a "substantial" rather than an "important" cause of declines in employment and sales or production. The change was rescinded before it was scheduled to take effect.

Table 2.—Workers Certified for Trade Adjustment Assistance, by Selected Industries, Fiscal Years 1970-86

SIC	Industry	1970-74[a]	1975[b]	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
22	Textile mill products	2,835	395	3,418	2,305	5,200	9,112	2,237	485	170	280	3,321	882	1,973	29,778
23	Apparel/other textile products	—	1,072	11,781	7,860	25,195	43,146	21,675	4,458	5,497	3,359	3,696	4,788	13,296	145,823
30	Rubber/miscellaneous plastics products	5,232	184	2,001	6,681	3,704	9,900	11,152	52	207	470	176	258	6,009	40,794
31	Leather/leather products	13,867	4,115	9,063	13,495	16,319	21,397	6,753	1,537	1,705	3,759	7,057	4,509	4,716	94,425
−314	Footwear, except rubber	—	4,115	8,243	12,147	13,610	16,890	5,223	393	416	3,410	6,535	3,594	3,047	77,623
33	Primary metal industries	400	615	26,858	46,179	40,489	2,492	1,142	3,885	126	11,147	7,794	1,342	10,908	152,977
−331	Blast furnaces/basic steel products	—	—	26,729	45,788	39,502	2,057	552	437	126	8,570	6,542	372	260	130,935
35	Machinery, except electrical	676	1,885	1,005	32,569	2,624	2,943	3,802	4,254	2,805	1,866	4,869	4,457	8,626	71,705
−354	Metalworking machinery	—	—	548	2,472	—	63	253	—	3	—	1,128	32	3,211	7,710
−3573	Electronic computing equipment	—	189	63	—	—	—	—	—	—	—	432	380	1,287	2,351
36	Electrical/electronic equipment	20,887	9,954	10,906	7,027	15,590	5,467	13,059	3,622	2,089	1,470	6,512	1,820	13,634	91,150
−3651	Radio/TV sets	—	5,992	2,779	2,955	10,702	1,654	2,433	115	166	258	1,368	310	6,387	35,119
−3674	Semiconductors/related devices	—	2,900	3,098	402	240	147	1,574	70	—	292	—	—	1,665	10,388
37	Transportation equipment	2,150	16,175	40,242	17,671	14,992	4,919	592,205	21,397	65	10,098	2,417	547	5,385	726,113
−371	Motor vehicles/equipment	—	13,727	39,843	17,671	11	2,136	591,838	18,856	65	8,714	1,805	250	514	695,430

[a] Through Apr. 2, 1975

[b] April 1975 through September 1975

SOURCE: U.S. Department of Labor, Office of Trade Adjustment Assistance clined sharply. Approvals, which had held at about 65 percent through 1970s and rose above 80 percent in 1980, dropped to 15 and 12 percent (table 3).

The decline in certifications was in line with the new Administration's efforts to cut spending; according to GAO, borderline petitions that would previously have been approved were now rejected.[11] Also, all petitions for 50 or more workers began to receive special scrutiny; for a period all were personally reviewed by the Assistant Secretary of Labor with responsibility for the program. Certifications of auto workers dropped steeply. Over 90 percent of auto workers petitioning for certification got approvals in 1980, 22 percent in 1981.[12] In 1982, petitions covering just 65 auto workers were approved; this compares with about 592,000 in 1980 and 19,000 in 1981 (figure 3; table 2 shows details).

Another change in the TAA program for workers was in the patterns of activity and spending. In relative terms, training took on greater importance. Some 214,000 workers were approved for TAA benefits in the 5 years 1982-86. In the same period, a total of 139,000 received TRAs and 39,000 entered training. About 9,000 received relocation assistance and 4,500 got help with out-of-area job search. (The numbers of workers receiving training, out-of-area job search, and relocation assistance are not additive; some workers may have received two or three of the services.) Although the numbers of TAA-certified workers receiving training were no greater than in earlier years (see table 1), the proportion of those certified who entered training was much larger (18 percent, versus under 4 percent). During the deep recession of 1982-83, more workers than ever before took advantage of relocation assistance.

Table 3.—Workers Certified for TAA as a Percentage of Workers Applying

Fiscal year	Workers applying for certification	Workers certified	Percent certified
1970-75^a . . .	121,330	53,899	44%
1975^b	73,036	34,879	48
1976	219,641	144,396	66
1977	183,218	116,726	64
1978	255,452	165,866	65
1979	214,856	140,079	65
1980	840,794	684,766	81
1981	354,863	51,072	14
1982	157,549	19,465	12
1983	266,954	56,173	21
1984	88,133	19,688	22
1985	72,001	25,339	35
1986	168,005	93,132	55
1987^c	190,000-255,000	110,000-140,000	55-58

[a] Through March 1975.
[b] From April 1975 to September 1975.
[c] OTA estimate, based on first and second quarters, fiscal year 1987.

SOURCE: U.S. Department of Labor, Office of Trade Adjustment Assistance.

The increased emphasis on training reflected easier access to training funds. In 1982, for the first time, Congress earmarked funds specifically for training and relocation services. The appropriation for several years was about $26 million, with $3.9 million for administrative expenses added in 1985. Cuts required under the Gramm-Rudman-Hollings deficit reduction law lowered the combined funds to $28.5 million in 1986; the $29.9 million appropriation was restored in 1987.

In its most recent years, 1985 through early 1987, the TAA program for workers survived uncertainty, the lapse in legal authority, and proposals by the Reagan Administration to abolish it. Under a new Secretary of Labor, TAA for workers began once more to expand. In 1986 and 1987, petitions for eligibility and requests for training rose fast. At the same time, the percentage of workers approved for certification increased to about 55 percent—not far below the 65 percent that was typical in the

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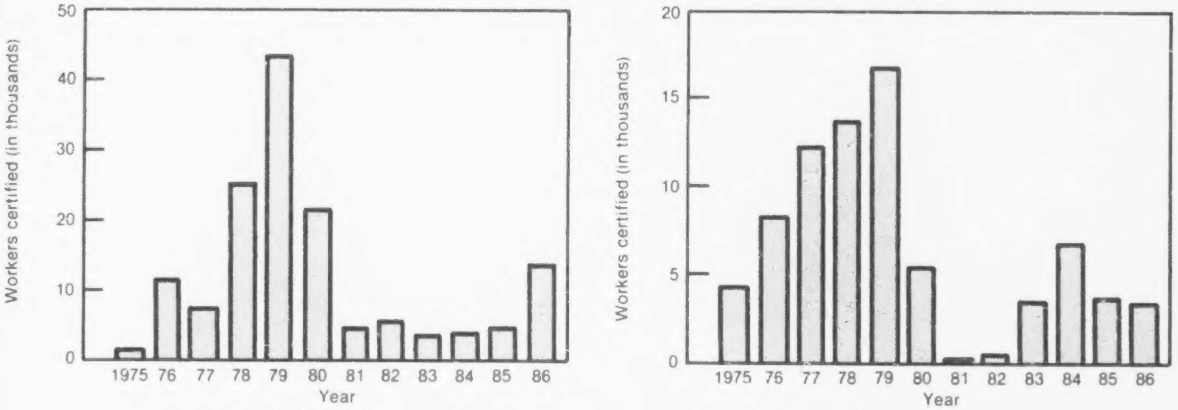
[11] U.S. Congress, General Accounting Office, *Information on the 1974 Trade Act Worker Adjustment Assistance Program Certification Process* (Washington, DC: 1982).

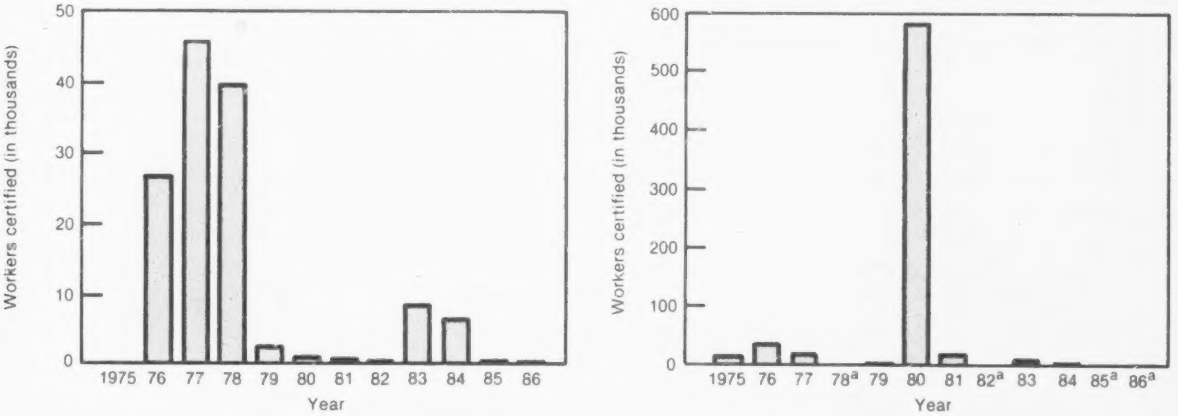
[12] The Labor Department stated that many petitions in 1981 were from auto dealers, which were ineligible because they were service firms, and from auto parts makers, which were ineligible because the parts they made were not being imported. However, only about 700 workers in auto dealerships petitioned in 1981; all were denied. Petitions from final auto assembly plants were denied in the same proportion (78 percent) as from auto parts plants. In 1981, the Labor Department approved TAA petitions covering 11,929 workers from firms making motor vehicle parts and accessories (SIC 3714) and rejected petitions covering 41,563 workers. The same year, petitions covering 6,927 workers from plants making motor vehicles and car bodies (SIC 3711) were approved, and petitions covering 24,384 such workers were rejected. In 1982, 64 workers from motor vehicle parts and accessories were certified and 4,680 rejected; 1 worker from motor vehicles and car bodies was certified and 4,245 were rejected.

Figure 3.—Workers Certified for Trade Adjustment Assistance, by Selected Industries, 1975-86



Apparel and textile products
SIC 23

Non-rubber footware
SIC 314



Blast furnaces and basic steel products
SIC 331

Motor vehicles and equipment
SIC 371

[a] Number of workers certified was less than 500

SOURCE: U.S. Department of Labor, Office of Trade Adjustment Assistance.

1970s. In fiscal year 1986, over 93,000 workers were certified, and $119 million was spent for TRAs, compared to $35 to $40 million per year in the 3 previous years. In the first half of fiscal year 1987 (October 1986 to March 1987), more than 69,000 workers were certified (an annual rate of up to 140,000) and the Department of Labor estimated that $176 million would be spent for TRAs by the end of the fiscal year.[13] Demands for training in early 1987 were great enough that Labor Department officials expected funds to run out before the end of the fiscal year, and were rejecting or paring down requests from the States for training funds.

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[13] TRAs are not funded by a line item appropriation, but are drawn from the Federal Unemployment Benefits Account

(footnote continued)

(FUBA), which is mostly spent for TRAs. General revenues support the FUBA account; if it is exhausted before the end of the year, funds can be advanced from the Advances Account of the Unemployment Trust Fund and Other Funds Accounts. FUBA is currently in good financial shape because it can tap funds that were intended for the Black Lung Trust Fund, but because of a change in the law are not needed. Without this windfall, it is not likely that FUBA would have had enough money to pay for TRAs in fiscal year 1987, unless Congress provided it in a supplemental appropriation.

The Labor Department's estimate of $176 million for TRAs in fiscal year 1987 appears very conservative. It is based on an estimate of 55,000 workers receiving TRAs for an average of 22 weeks, with the average payment $147 per week. Since 93,000 workers were certified for TAA benefits in fiscal year 1986, and

(footnote continued)

The future of the TAA program for workers was placed in doubt in February 1985, when the Administration proposed in its 1986 budget to abolish TAA and rescind what was left of the $26 million FY 1985 appropriation. The reason given was that TAA was unnecessary, since the Title III program under the Job Training Partnership Act could be used to serve all displaced workers. The programs are not identical, however. TAA offers more generous support for training, out-of-area job search, and relocation assistance, and provides extended income support during training. TAA also had continuing political support, on the grounds that workers injured by a trade policy meant to benefit the entire Nation deserve special assistance or compensation. Congress did not act on the rescission proposal, and it expired in April 1985.

In December 1985 the program lost its legal authority. Congress failed to pass budget reconciliation legislation that would have reauthorized the program, opened it to more workers, and provided a new source of funding through a small tariff on all imports. Although Congress adjourned without passing the bill, the floor debate indicated strong congressional interest in keeping the program alive; also, a continuing resolution provided funds to keep it going. During the lapse of legal authority, the Department of Labor continued to certify workers and to provide training and relocation services (although not TRAs).

Authorization for TAA was restored in April 1986 in the Consolidated Omnibus Budget and Reconciliation Act of 1985 (COBRA), which extended the program through the end of 1991. This was the longest extension since TAA was overhauled at the outset of the first Reagan Administration; for the first time in 6 years, the program appeared to have a stable future.

The act also made substantial but not radical changes in the TAA program for workers. It extended the period of eligibility for benefits, because rules related to date of layoff had previously kept some workers from getting their full share. It renewed emphasis on training, requiring that State agencies must advise every worker who applied for TRAs to apply for training, must let the worker know of suitable training opportunities within 60 days, and must approve training, so long as five criteria were met: no suitable job is available, training is available, the worker will benefit from training, can expect to complete it, and can reasonably expect to get a job afterwards. Workers were not obligated to enter training, however, as a condition for getting TRAs. They were obligated to take part in a job search skills workshop or job finding club, unless no acceptable job search program was reasonably available.

With the renewal and apparent stability of the TAA program came a rising tide of applications for benefits. For fiscal year 1987, TAA for workers was expected to cost about $206 million—nearly as much as the $223 million appropriation for the JTPA Title III program, which is open to all displaced workers, regardless of cause. The projection of 110,000 to 140,000 workers certified for TAA in fiscal year 1987 compares to about 146,000 displaced workers newly enrolled in Title III programs in the most recent reporting period, July 1985 to June 1986.

Trade Adjustment Assistance for Firms

TAA for firms was created at the same time as the program for workers, in the Trade Extension Act of 1962. It has gone through substantial changes in character since it was created 25 years ago. Like TAA for workers, it was dormant in its first dozen years. As it expanded in the 1970s, it was primarily a financial aid program, offering loans and loan guarantees to firms that were in trouble because of import competition. Technical assistance was at first a small component but soon came to be con-

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(footnote continued from previous page)

69,000 were certified in the first half of fiscal year 1987, the estimate of 55,000 seems low. Labor Department spokesmen told OTA the estimate might be revised.

sidered more valuable than financial assistance. A feature added in the later 1970s was industrywide assistance; a few industries began to get technical and export assistance, usually through industry associations. In the 1980s, the Reagan Administration initially backed technical assistance for firms but soon shifted and made the program a target for abolition. In fiscal year 1987, TAA for firms was barely kept alive; the Commerce Department granted only brief, uncertain extensions of authority and funds to service providers.

Over the years, TAA for firms has had less visibility and political support than the TAA program for workers; and even at its height, cost a good deal less. It is now a small program for technical assistance only, funded at $15.8 million in fiscal year 1987; loans and loan guarantees were dropped in the last law Congress passed reauthorizing the program. Despite its modest scale and its bare survival at present, TAA for firms is, with a few special or minor exceptions, the only Federal program that provides sustained, in-depth technical help to small and medium-sized manufacturing companies. Thus its experience may shed some light on the potential and problems of a government-sponsored industrial extension service for firms.

The TAA program for firms is administered by the Office of Trade Adjustment Assistance, in the Commerce Department's International Trade Administration (until 1981, the Economic Development Administration was responsible for the program). The Commerce Department does not directly provide technical assistance to firms, but gives grants to 12 independent nonprofit agencies, Trade Adjustment Assistance Centers (TAACs), which provide the technical services. The Department decides on petitions for certification, and keeps a tight rein on the TAACs, retaining the power to approve assistance plans and contracts for consultants.

The Early Years: 1962-74

Under the 1962 law, eligibility for the TAA firm program was just as restrictive as for the worker program. In order for a firm to qualify, the Tariff Commission would have to find that the firm was suffering "serious injury" from imports as a result "in major part" of trade concessions. In determining serious injury, the Commission was to take into account all economic factors it considered relevant, including idling of productive facilities, inability to make a reasonable profit, and unemployment or underemployment in the firm.

A firm that got certification could apply for technical, tax, or financial assistance. Once certified, the firm could carry back or carry forward current operating losses for 5 years, and apply for any tax refund or credit that might result. The firm could also receive technical assistance from a public agency or private provider, sharing in the cost as determined to be appropriate by the Commerce Department. The firm could get loans or loan guarantees under the program only if the financial assistance were not available privately or from some other existing government program. The loans were to be used primarily for plant or equipment, but in exceptional cases could be made for working capital.

Through 1969, the Tariff Commission approved no petitions for adjustment assistance. No firms were certified, and none received any help. After the eligibility rules were revised in 1969, 39 firms were certified; 16 were approved for loans and loan guarantees, which amounted to $32.5 million, of which $14 million went to two plants. This was the extent of firm assistance in the first dozen years of TAA.

Years of Expansion: 1975-81

The Trade Act of 1974 relaxed eligibility rules for firms on the same terms as for workers. It also dropped tax assistance, limited loans to $1 million and loan guarantees to 90 percent of $3 million, and required that firms pay at least 25 percent of the costs of technical assistance.

With the relaxation of eligibility rules and transfer of the program from the Tariff Commission to the Department of Commerce, it was expected that more firms would apply for assistance under TAA. They did, but not to the extent expected. The Trade Subcommittee of the House Ways and Means Committee reported in 1977 that in the first 2 years under the Trade Act 73 firms were certified, and 18 applications for financial assistance were approved, for a total of $19.1 million in loans and loan guarantees.[14] A year later, the General Accounting Office also concluded that the program was little used—and that the few firms getting TAA benefits (mostly loans) had not used them to become viable.[15]

TAA was criticized for the amount of paperwork involved in applying for the program, and resulting delays; firms complained of high interest rates for loans and requirements for personal repayment guarantees.[16] The Trade Subcommittee of the House Ways and Means Committee said that TAA represents a "classic Catch 22 situation." Firms could not get help until their sales and/or production and employment were already declining. To get loans, firms had to show they were unable to get financing in the commercial market—but at the same time had to provide assurances of repayment.

The Commerce Department introduced TAA assistance for an entire industry in 1977, using existing authority of the Economic Development Administration. American makers of footwear were suffering from foreign competition, imports having risen from one-fifth to one-half of consumption since 1968 while employment declined 29 percent. The International Trade Commission recommended a quota, but President Carter rejected the proposal. Instead, he proposed an Orderly Marketing Agreement, under which Korea and Taiwan agreed to limit imports for 4 years, and the concerted use of several government programs, including TAA, to help both individual footwear firms and the industry as a whole.

TAA industrywide assistance for the footwear industry included technological studies (by the government, universities, and private industry) and export promotion, in cooperation with the industry association. Individual firms were targeted for TAA help; in 1977-78, 60 percent of firms certified were in the footwear industry, compared with 20 percent previously.[17] At the time there were 376 non-rubber footwear companies in the United States; 56 were certified by the end of January 1978. Information is incomplete on how much assistance these firms actually received; according to GAO, approval of loans was slow, and technical assistance was not yet a major part of the TAA program for firms.[18] The effort to revitalize the American shoe industry did not stop the industry's decline, though the losses may have been moderated; by 1984 imports were 70 percent of U.S. consumption, and employment in the U.S. industry was about 95,000, down from 233,400 in 1968.

Other industries besides footwear also began getting technical assistance in 1978 (table 4). The biggest recipient was the textile and apparel industry, which got nearly $20 million for technological assistance and export development through fiscal year 1986. TAA funds contributed to the cooperative public-private project of the Textile & Clothing Technology Corp. (TC^2), to develop automated methods of sewing. Other projects included helping the American electronics industry and an auto parts industry association set up offices in Tokyo, to serve as marketing, public information, and public policy centers.

In 1978 the Commerce Department also established a new way of offering TAA assistance to firms. Instead of providing it through consultants on contract, the Department set up private non-profit Trade Adjustment Assistance Centers (TAACs) in several regions of the Nation, to deal with firms applying for TAA help.

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[14] U.S. Congress, House of Representatives, Subcommittee on Trade of the Committee on Ways and Means, *Background Materials on the Trade Adjustment Assistance Programs Under Title II of the Trade Act of 1974* (Washington, DC: U.S. Government Printing Office, 1977).

[15] U.S. Congress, General Accounting Office, *Adjustment Assistance to Firms Under the Trade Act of 1974—Income Maintenance or Successful Adjustment?* (Washington, DC: U.S. Government Printing Office, 1978).

[16] Ibid., and U.S. Government, House of Representatives, op. cit.

[17] U.S. Congress, General Accounting Office (1978), op. cit.

[18] Ibid., pp. 42-43.

Table 4.—Trade Adjustment to Firms and Industries, Fiscal Years 1978-86—Technical Assistance (thousands of dollars)

	Assistance to firms				Industrywide assistance					
	TAAC[a] agreements	TAAC support	Direct firm assistance[b]	Total	Footwear	Apparel/ textiles	Other	Multi-industry projects	Total	Technical assistance Total
1978 ..	$ 7,359	$ 94	$3,100	$10,553	$2,437	$1,975	$2,675	$ 36	$7,123	$17,676
1979 ..	8,159	101	2,920	11,180	1,597	1,724	2,417	829	6,567	17,747
1980 ..	9,736	180	600	10,516	2,719	3,029	1,037	56	6,841	17,357
1981 ..	12,663	200	—	12,863	670	3,160	771	—	4,601	17,454
1982 ..	8,695	—	—	8,695	244	2,718	382	124	3,468	12,163
1983 ..	12,990	—	—	12,990	33	2,854	1,335	285	4,480	17,470
1984 ..	12,951	—	—	12,951	—	1,735	800	394	2,929	15,880
1985 ..	13,947	—	—	13,947	—	2,000	592	100	2,692	16,639
1986 ..	5,078	—	—	5,078	—	—	1,164	—	1,164	6,242

[a] TAACs are Trade Adjustment Assistance Centers.

[b] EDAs direct funding to firms was phased out when the TAACs were created.

NOTE: TAA financial assistance (loans and loan guarantees) is not shown on this table. See table 5 for data on financial assistance.

SOURCE: Office of Trade Adjustment Assistance, International Trade Administration, U.S. Department of Commerce.

Operating on grants from the Commerce Department, the TAACs would take firms through the first stage of preparing petitions for certification, help them apply for loans and loan guarantees, and offer technical assistance to help firms improve their operations and gain a better chance of survival. Drawing technical competence both from their own staffs and from consultants, the TAACs were able to advise firms on problems ranging across new product development, improved manufacturing methods and work organization, financial controls, management information systems, and marketing. With the establishment of the TAACS, the program began to lean more strongly to technical assistance, though loans and loan guarantees remained a big part of it until a change of direction under the Reagan Administration.

Bare Survival: 1981-87

The TAA program for firms initially found some support in the new Administration, as a useful alternative to protectionist measures. In line with this idea, TAA was moved from the Economic Development Administration to the International Trade Administration (both in the Department of Commerce). Financial assistance was deemphasized. Loans and loan guarantees were cut back from over $40 million per year to about $20 million; firms getting financial assistance dropped from about 40 per year to a dozen (table 5). The technical assistance program was pared for one year, but less drastically, and was then restored to its previous modest level of $16 million to $17 million per year. In the Omnibus Budget Reconciliation Act of 1981, Congress explicitly authorized the industrywide technical assistance program (previously carried out under EDA authority). Otherwise, there were few changes in the law affecting the TAA program for firms; this was in contrast to the TAA program for workers, which Congress revamped in several major ways to reduce spending.

By the next year, the situation changed. In 1982 and every year thereafter, the Administration proposed to eliminate TAA for firms. The arguments were, first, that the program did not work. This argument focused mainly on the loan and loan guarantee program. Because so many firms went bankrupt shortly after getting financial assistance, the Administration said, the program suffered from a high default rate; about half the TAA portfolio was in liquidation or written off at the end of 1983, and another 11 percent was delinquent in meeting payments. Also, the Administration argued, the fact that a firm is harmed by import competition does not justify special government assistance; this is not fair to firms that suffer from recessions or domestic competition. Besides, firms that are harmed by *unfair* import com-

Table 5.—Firms and Industries Receiving TAA Technical and Financial Assistance, Before Fiscal Year 1982 and Fiscal Years 1982-86

	Before FY 1982	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	Cumulative to date
Firms certified	1,265	195	413	398	319	178[a]	2,768
Petition acceptance to certification (average number of days)	52	54	57	74	48	88[a]	57
Adjustment plans accepted	(not available)	114	106	191	158	56	—
Total firms receiving DOC Direct Technical Assistance	176	0	0	0	0	0	176
Total firms assisted by TAACs[b]	1,665	523	734	814	749	442	4,927
Pre-certification	1,153	248	513	502	413	206	3,035
Post-certification	434	213	157	252	233	99	1,388
Implementation	78	62	64	60	103	137	504
Total technical assistance ($000)	$70,816	$12,163	$17,470	$15,880	$16,639	$6,243	$139,428
Firms	45,659	8,695	12,990	12,951	13,947	5,078	99,320
Industrywide	25,157	3,468	4,480	2,929	2,692	1,164	40,108
Firms receiving financial assistance[c]	295	12	16	13	2	2	340
Total loans ($000)	$321,778	$19,289	$15,784	$23,900	$3,400	$ 900	$385,051
Direct loans	187,781	2,527	7,849	7,500	400	900	206,957
Guaranteed loans	133,997	16,762	7,935	16,400	3,000	0	178,094

[a] Between Dec. 19, 1985, and Apr. 7, 1986, there was a lapse in the authorization for the trade adjustment assistance program for firms during which petition processing was suspended.

[b] Double counting is unavoidable, since most firms receive more than one major category of TAAC assistance. Only completed projects have been counted beginning in fiscal year 1979; in-process projects are carried over to the next year, and inactive projects are not included.

[c] Financial assistance to firms was discontinued on Apr. 7, 1986, upon enactment of the Consolidated Omnibus Budget Reconciliation Act of 1985.

SOURCE: Office of Trade Adjustment Assistance, International Trade Administration, U.S. Department of Commerce.

petition can appeal for protection under the trade laws.[19]

In its fiscal year 1986 budget, submitted to Congress in February 1985, the Administration asked for an immediate end to both TAA programs, and a rescission of fiscal year 1985 funds. Under the Congressional Budget and Impoundment Control Act of 1974, Congress has 45 working days to consider an Administration request to rescind funds already appropriated for the current fiscal year; unless both Houses approve the request within the 45 days, it fails. During the time the rescission request ran, the Department of Commerce approved no new grants for TAA firm assistance; but that had little practical effect, because most of the TAACs, which provide the technical assistance, continued to operate on yearlong grants that had already been awarded. The loan program became virtually a dead letter, however. Although money was available for financial assistance, only two firms got loans or guarantees in fiscal years 1985 and 1986, after delays of up to 2 years.

The TAACs and the firm assistance program had no protection when authority for both TAA programs lapsed in December 1985. The Department of Labor continued training and relocation assistance (but not Trade Readjustment Allowances) for TAA-certified workers, under funding Congress had provided in a continuing resolution. The Department of Commerce ordered all TAACs to stop services to their clients and close down their offices entirely by March 31, 1986.

In the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), signed into law on April 7, 1986, Congress revived both the worker and the firm TAA programs. The law ended financial assistance for firms; only technical assistance remained. The Senate and House Appropriations Committees, in providing $15.8 million for the firm program in fiscal year 1987 ($13.9 million for grants, the rest for administration) directed that the Department of Commerce continue to provide technical assistance through the TAACs. The Department interpreted this direction to mean that no money was available for industrywide programs.[20]

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[19] The Administration arguments against the TAA program for firms are cited in U.S. Department of Commerce, Office of Inspector General, *International Trade Administration Trade Adjustment Assistance: No Cure for Import-Injured Firms*, report No. D-068-5-006 (Washington, DC: Department of Commerce, 1985), p. 2.

Despite the new legislative lease on life, TAA for firms barely survived the next year. First, the Department of Commerce instructed all TAACs to resubmit their proposals for grants; in effect, they had to start over. Most of the TAACs received new grants by the following August, but the grants were short-term, running only through the end of December 1986. In January 1987, in submitting its fiscal year 1988 budget, the Administration again proposed to end the TAA program for firms, and asked for rescission of fiscal 1987 funds. The TAAC agreements were extended for 2 months, through the end of February 1987; most of the extensions were on existing funds, with no new money. Then some small grants were doled out, with extensions through the end of March. The rescission request expired that month with no action by Congress. The Department of Commerce then gave the TAACs an extension to June 15, 1987, with limited grants from the fiscal 1987 appropriations. Of $13.9 million available for TAAC grants for the year, $2.2 million had been released by the end of April 1987. In May 1987, the Commerce Department finally requested refunding proposals from the TAACs, for the period June 1987-May 1988. Meanwhile, in dealing with interruptions, short-term extensions, and lack of money over a period of 16 months, most of the TAACs found they were virtually unable to deliver assistance to their clients.[21]

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[20] In a supplemental appropriations bill for fiscal year 1987, the House Appropriations Committee stated in its report: "The Committee did not intend to prohibit fiscal year 1987 funds . . . from being used for industry project grants. The Committee expects ITA to make funds available for this activity out of the total amount appropriated for TAA for FY 1987, at approximately the same level as was made available for this activity in FY 1985 and FY 1986"—that is, about $1 million per year.

[21] In March 1987, OTA interviewed directors of 11 of 12 TAACs (all but one that had just been established); all reported serious disruptions of service to clients during the previous months of interrupted and uncertain funding. Other results of the interviews are reported in the section entitled, *Trade Adjustment Assistant for Firms and Industries: Issues.*

TRADE ADJUSTMENT ASSISTANCE FOR WORKERS: ISSUES

The stated aim of Trade Adjustment Assistance for workers is to help people who lose their jobs because of imports learn new skills and find good new jobs. The main issue in evaluating TAA is whether it does this job well.

By its nature, TAA cannot include all the features that make a displaced worker program most effective. In a 1986 study of worker displacement, *Technology and Structural Unemployment: Reemploying Displaced Workers*, OTA found several common ingredients of success in projects serving displaced workers, regardless of the details of their design. These common factors are:

1. help for workers is ready early, preferably before people are laid off;
2. services are offered all together, in a one-stop center, on the premises where the layoffs take place or as nearby as possible;
3. employers and workers are directly involved in planning and delivering services; and
4. the projects offer a full range of services, including testing, assessment, and counseling; training in job search skills and searching out job opportunities; and arranging for training in new skills or in basic educational skills, when workers are lacking in such skills.[1]

With TAA alone, it is scarcely possible to begin serving workers before layoff, since they must first be certified as trade-affected; this takes several weeks at the least and in the past has often taken several months. There is no provision under TAA for employers and workers to cooperate in the delivery of services; the Unemployment Insurance (UI) and Employment Service (ES) offices are charged with this task. As for offering a full range of services, it is theoretically possible for the ES to do counseling, assessment, job development, and so on for TAA-certified workers; in practice, the ES has never done much in the way of providing these services to its clients, and with the staff and funding cuts of recent years is now doing even less.[2]

To get the benefit of early response, one-stop services in the plant or nearby, employer-worker cooperation, and a full range of services, displaced workers must go elsewhere than TAA. Projects funded under Title III of the Job Training Partnership Act can offer all these features; not many, so far, do. But it is at least possible. The States administer Title III; many of them are striving to create programs that include the desirable features described above. TAA has its own special advantages for workers—mainly, the possibility of generous support for training and extended income benefits for people out of work. Thus, States which are adept at combining the best features of the two programs can offer first-class service to TAA-certified workers (assuming the funds for training and relocation assistance hold out). A few States are doing this very well, and offering an example to others.

An alternative to coordination would be to revise the law so as to roll TAA and Title III into one comprehensive adjustment assistance program open to all displaced workers. Most of the issues related to eligibility and certification of trade-affected workers for TAA would disappear if the two programs became one. So would the management problems of coordinating TAA and Title III. However, no proposal before Congress for a single program includes all the useful features of both programs, in particular, the long-term income support now available to TAA-certified workers in training. Also, the equity argument for TAA—that workers bearing the heaviest costs of the Nation's free trade policy deserve special consideration —has strong bipartisan support.

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[1] U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment: Reemploying Displaced Adults*, OTA-ITE-250 (Washington, DC: U.S. Government Printing Office, February 1986), ch. 6 and passim. For another report that emphasizes many of the same elements in successful displaced worker projects, see *Economic Adjustment and Worker Dislocation in a Competitive Society*, Report of the Secretary of Labor's Task Force on Economic Adjustment and Worker Dislocation (Washington, DC: U.S. Department of Labor, December 1986).

[2] U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit., p. 198.

Many of the other issues that concern administrators of TAA and Title III programs come down, essentially, to money. TAA-certified workers in approved training courses are entitled to an extra year of income support; workers in Title III projects are not. This is a money issue. Shoe workers are usually certified for TAA; workers who make rubber heels for those shoes are not. The eligibility rule that causes quirks like these is principally a money issue. In the detailed discussion that follows, it may be helpful to keep in mind the larger, simplifying issues of how much the Nation is willing to pay for help to displaced workers, and whether workers injured by our trade policies need special adjustment assistance.

The Equity Argument for TAA

The equity argument is the main rationale for a program of benefits restricted to trade-affected workers. Despite some difficulties and outright failures in program administration, TAA as a separate program is popular with its beneficiaries. Labor unions representing large clusters of trade-affected workers are strong advocates of TAA. Many individual workers feel more at home in the local Unemployment Insurance office, where Trade Readjustment Allowances are administered, or in the Employment Service, which supervises TAA training and relocation benefits, than in an unfamiliar JTPA project center.

The equity argument can be turned upside down, however. In asking for an overhaul of the TAA program for workers in 1981, President Reagan appealed to fairness as the reason for abolishing extra benefits under TAA. He said:

> [W]e wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are laid off due to domestic competition. Anyone must agree that this is unfair.[3]

Another objection to a special assistance program for trade-affected workers is that it is difficult to pinpoint the cause of worker displacement. This is more true today than when the program was created; in 1962, U.S. involvement in world trade was much slighter than it is now, and trade-affected workers easier to identify. In today's world, worker displacement results from a combination of causes, hard to disentangle—competition from imports, domestic competition, and automation in response to competition, as well as changes in consumer tastes and failures of management. Under the law and Labor Department regulations, the certification of workers for TAA seems to be quite reliable in excluding workers who are *not* affected by trade, but it is not so good at including all those who *are* affected, at least indirectly. Inevitably, the distinctions between those who get benefits and those who don't are sometimes unfair or illogical; and the whole process of applying the distinctions takes time. These are unavoidable features of a program targeted to just one class of workers—those affected by trade.

As part of its evaluation of TAA for workers, OTA interviewed the administrators of TAA and Title III programs in 39 States, on strengths and weaknesses of the two programs and coordination between them.[4] Many of these officials favored combining the two programs, both for administrative simplicity and for equity. Because of the intricacies of eligibility for TAA, there may be two classes of workers within a single plant, or even among partners on the assembly line. Foreign competition has strong indirect impacts, said one State official, so why restrict some benefits only to those directly

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[3] Address Before a Joint Session of the Congress on the Program for Economic Recovery, Feb. 18, 1981, *Public Papers of the Presidents of the United States. Ronald Reagan*, 1981, p. 111.

[4] OTA requested interviews with program administrators in 40 States, including all that had any substantial number of TAA-certified workers in fiscal years 1985 and 1986; interviews were conducted in all but one of these States. Most of the interviews were by telephone; many of the States provided written answers to a brief survey as well. OTA staff visited one State (Massachusetts) for interviews. The States interviewed were Alabama, Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia, Washington, Wisconsin, Wyoming.

Box A.—Are GM Auto Workers Trade-Affected? Under TAA Rules, Maybe Not

General Motors has announced plans to close 11 assembly and stamping plants in Illinois, Michigan, Missouri, and Ohio, and eliminate 29,000 jobs. Whether all, or any, of these workers will be certified for Trade Adjustment Assistance benefits is doubtful.

When workers petition the Department of Labor for TAA eligibility, the Department examines the record of their company over the past 2 years. It looks for evidence that sales or production declined in that period, that employment has declined or threatens to, and that an important factor in the declines was desertion by the firm's customers in favor of an import. The law, and the Labor Department's interpretation of the law, require that the influence of imports must be recent, direct, and specific to that firm if the laid-off workers are to qualify for TAA.

Clearly, the U.S. auto industry has been buffeted by import competition in the past decade. Foreign cars increased their share of the American market from 17.9 percent in 1978 to 26.7 percent in 1980. Chrysler nearly went under. Ford closed plants while developing new designs. General Motors, the giant of the industry, also closed some plants, but postponed massive retrenchment while looking for ways to meet the new competition. Since 1980, the share of auto imports has steadied at about 28 percent, partly as a result of voluntary export restraint by Japanese automakers; but reverberations from the great rise in imports are still being felt throughout the industry. General Motors, having lost out to domestic as well as foreign competitors and operating many plants at 60 and 70 percent capacity, is now closing plants on a large scale.

In the four States most affected by the scheduled GM closings, directors of programs for displaced workers (TAA for trade-affected workers and Title III of the Job Training Partnership Act for other displaced workers) told OTA they could be swamped by demands for retraining and other adjustment services. Without TAA funds, they are afraid they will not be able to meet the needs of all the displaced GM workers.

Recent decisions by the Department of Labor suggest that the GM workers will not qualify. Of six TAA petitions filed on behalf of GM workers from July 1986 to April 1987, five were denied, and the sixth had not been decided by the end of April. A petition from an Oldsmobile-Cadillac plant in New Jersey was denied because, the Department found, the cars from that plant were losing out to domestic competitors. A foundry in New York was turned down on grounds that the closing was due to a consolidation rather than import competition. A New York fuel systems plant was rejected because the closing was considered due to technological change.

The big cutbacks at General Motors, with the loss of thousands of jobs, aptly demonstrate the point that the causes of worker displacement are multiple and intertwined. Import competition certainly has something to do with many if not all of the GM plant closings. So has technological change, domestic competition, and GM's own management decisions. The law governing TAA does recognize this complexity; it requires a showing that import competition "contributed importantly" to a firm's decline, not that it be the only or most significant cause. But if the effects of imports are somewhat indirect or distant in time, it is likely that the Labor Department will rule against TAA eligibility for the workers.

affected—"It makes for bad feelings." In one State (Pennsylvania) a steel company that had been certified as import-affected in one year was turned down the next—just before it closed. The reason was that there was no evidence of an increase in imports in the year of closure. "This makes absolutely no sense," said these officials. (See box A for another example, the auto industry.) Several administrators cautioned, however, against losing special TAA benefits, such as greater support for training, if the two programs are combined. One said: "Our fear is they will take the worst parts of each program."

A variant of the equity argument in support of TAA is that the program is politically necessary to defuse demands for tariff or quota protection against imports. Brookings Institution authors Lawrence and Litan, for example, say: "Rather than acceding to protectionism, lawmakers should develop effective policies for easing the dislocations induced by trade."[5] They argue that protection can cost much more than even a generous adjustment program.

Extra Benefits Under TAA

Vocational Skills Training

In 38 of 39 States surveyed, officials cited the superior support for training under TAA as a great advantage for eligible workers. First, TAA provides income support at the level of UI benefits for as long as 78 weeks, which includes 26 extra weeks for people in approved training courses. Title III offers very little in the way of income support; though services that support training, such as child care and transportation, can be approved for reimbursement, they seldom are.[6] As a rule, the only publicly provided income support for displaced workers in Title III training is UI, which lasts no more than 26 weeks (except when unemployment rates are exceptionally high). In addition, TAA can pay for tuition and fees for training courses that last as long as 2 years. And, until recently at least, there was more money available for training costs, per person, in the TAA pot than in Title III. Although there is no explicit time or money limit for training courses under Title III, managers have to juggle the demands of many clients for limited resources. Also, most Title III training courses are planned to be short enough to fit into the 26 weeks of eligibility for UI. In 1985, the average length of classroom training under Title III was 9 weeks.[7]

States report that the more generous support for training and income maintenance under TAA allows workers to enroll in courses that will give them more advanced skills and the potential for a higher wage. Some workers are able to complete college degrees with TAA help. Also, having a longer period for training means that there is time for people to be assessed, and for them to make up their minds to put up with the sacrifices and make the commitments that training requires. Moreover, it allows time for those who need it to get remedial education before undertaking vocational skills training. One State JTPA manager explained that, from her point of view, there is a different mindset about training in the two programs, because (until quite recently) TAA training funds were sufficient to provide training to all the eligible workers who wanted it. "With Title III, you have to spread it thin. With TAA, it's a gift."

One or two State officials demurred on the value of TAA-funded training. One (in Illinois) said that workers sometimes "take advantage" of expensive training and lucrative income benefits that may not really be in their best interest. Another (Oregon) said, more critically, that workers play the TAA and Title III programs against each other, dropping out of JTPA when they are eligible to enter longer term TAA training, with its extended income support.

The idea that workers enter training in order to get the extra 26 weeks of TRA benefits was only rarely encountered among the State officials OTA interviewed, but it has been a cautionary note in the reports of some analysts of TAA.[8] A more common criticism is that TAA training has been ineffective in preparing workers for jobs. Lawrence and Litan cite Labor Department figures to show that the percentage of workers completing training under TAA, and then finding jobs related to their training, was 7.6 percent from 1977 to 1981, and dropped to only 4.1 percent from 1982 to 1984.[9] Labor Department officials say, however, that these figures cannot be taken at face value. Most placements of TAA trainees are probably never even reported because there is no follow up of participants; the placements that are reported must meet a very rigid definition that was developed to distinguish which placements could be credited solely to the efforts of ES offices.

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[5] Robert Z. Lawrence and Robert E. Litan, "Living With the Trade Deficit: Adjustment Strategies To Preserve Free Trade," *The Brookings Review*, fall 1985.

[6] U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit., p. 436.

[7] U.S. Congress, General Accounting Office, *Dislocated Workers: Local Programs and Outcomes Under the Job Training Partnership Act* (Washington, DC: 1987), p. 47.

[8] See, for example, Lawrence and Litan, op. cit.; also, Robert Z. Lawrence and Robert E. Litan, *Saving Free Trade: A Pragmatic Approach* (Washington, DC: The Brookings Institution, 1986), pp. 58-59.

[9] Ibid.

It is notoriously difficult to evaluate the effect of training programs on job placement and earnings; most past studies are of disadvantaged workers, and show mixed but modestly favorable results. Experience with displaced worker programs, and the few statistical studies available, suggest that in well-run programs, where applicants and training courses are carefully matched, and the training is planned to meet demands in the local labor market, training in a new skill pays off. For a substantial proportion of displaced workers, on the order of 20 to 30 percent, skills training is the best way to regain the ability to earn a middle class wage.[10]

The principal disadvantage to training under TAA alone, according to the State officials, is lack of guidance. In 25 of 39 States, officials of TAA or JTPA, or both, said that Title III projects offer far more individual counseling and assessment than the ES does for the TAA-certified workers it serves. According to GAO, 84 percent of Title III participants get some individual job counseling.[11] Several State officials commented that while the sole purpose of Title III is to serve displaced workers, the ES was established as a job exchange service for everyone to use. The ES has neither the staff nor the money to concentrate on the needs of trade-affected workers—especially since the funding cuts and 20 percent staff reduction since 1981; much of the staff cut was taken in counseling.

Although TAA has administrative money equal to 15 percent of program costs, the Labor Department releases these funds only after training is approved for individual workers, not before. The lack of budgeted administrative funds for TAA, combined with the general shrinkage of funds and staff, discourages planning for TAA activities; most ES offices do not keep any full-time staff dedicated to serving TAA-certified workers. Said one TAA official (New Jersey):

> Our biggest frustration is lack of funds for personnel. We need specialists who can convince the workers to enter retraining and, if they need it, basic education.

The paucity of counseling in the ES offices means that many TAA-certified workers are on their own in choosing from a list of approved training courses. Many people experienced in training of displaced workers consider this bad practice—especially considering the fact that many displaced workers have held just one job throughout their adult lives, and have little knowledge of the job market or demand for skills. "We make no bones about it," said one veteran project director. "We help them choose any training they're going to take. The results are better." A State director of displaced worker services put it this way:

> TAA relies on the individual worker to know where to go. That's too random a system. It leaves people in a self-service position. In Title III we are the motivators.

Two TAA officials (Maryland and Pennsylvania) said that the ES offices in their States do as much as they can to assess individuals and match them with appropriate training, but perhaps assessment by the ES is not entirely necessary since the institutions offering courses have their own admissions requirements anyway.

At the time of OTA's telephone survey, early in 1987, the States' greatest complaint about TAA training was that the money was running out. The law requires that TAA-certified be advised of opportunities for training. But State after State had proposals for training turned down or pared down, for lack of funds. Training funds had also run short toward the end of the 1986 fiscal year, but the situation was more acute in 1987. Of the $26 million appropriation for training and relocation benefits for fiscal year 1987 (ending Sept. 30, 1987), 70 percent was obligated by January. Of the remaining $8 million, the Labor Department set aside half for relocation benefits, which are considered entitlements under the law. That left $4 million for training for the last 8 months of the fiscal year.[12]

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[10] U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit., pp. 170, 250-260, and passim.

[11] U.S. Congress, General Accounting Office, *Dislocated Workers*, op. cit., p. 50.

Some States could turn to Title III funds for at least some of training needs for displaced workers (assuming sufficient coordination between the two programs). But others had run out of their Title III funds for the year and had nothing left to obligate. Three-quarters of Title III funds are allocated among the States by a formula in the law, based on the State's share of the national labor force and it unemployment rate. It was these formula funds that many (not all) States had fully obligated well before half the Title III program year was over.[13] The other one-quarter of Title III funds is given out at the discretion of the Secretary of Labor, but most of this was also obligated.[14]

Out-of-Area Job Search and Relocation

As with training, there is no explicit limit on what Title III projects can pay to reimburse workers for costs of job hunting outside their commuting area, or for moving expenses. But again, the need to "spread it thin" dictates against spending too much for any one person on costs of relocation. Few projects, in fact, put much emphasis on relocation. Under ordinary circumstances, without a good deal of help, information, and assurance of both a job and acceptable, affordable living conditions on the other end, rather few blue-collar workers consider relocating to get a new job. Middle-aged and older workers are especially disinclined to move. Not only are the costs often high—selling a home in a depressed market, abandoning family and community ties, giving up a spouse's job—but the rewards are relatively small for those who have few working years ahead of them.

Under TAA, out-of-area job search and relocation benefits are generous. They can cover up to 90 percent of outlays, with a cap of $800 for each; and the Labor Department considers them an entitlement, which means that any certified worker who properly applies for them gets them. The number of workers getting these benefits has never been very large; about 13,300 people received relocation allowances from 1975 to 1986, and around 9,600 got out-of-area job search benefits over the years (no doubt many were the same people). In the first 3 months of fiscal year 1987, nearly 900 got relocation allowances—an annual rate of about 3,600, which would be an all-time high if it persists.

The recipients tend to be concentrated in a few States—recently, California, Minnesota, Pennsylvania, and Arizona. In Arizona, for example, both the Title III and TAA programs have been exceptionally active in supporting relocation of displaced workers. As many as 60 percent of the State's Title III clients have lost jobs in the deeply depressed mining areas, so that moving to Tucson or Phoenix, where unemployment rates are relatively low, is an attractive option. Because of competing demands for Title III money, State officials put a limit of $650 per worker from the JTPA funds for moving costs. The TAA allowances make it possible to offer relocation help to many more workers—about 30 percent of TAA-certified workers in Arizona use it, according to State officials—and the allowances are usually larger.

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[12] The full appropriation for training and relocation, including $3.9 million for administrative costs, was $29.9 million. As this report was completed, in May 1987, the House of Representatives had passed a supplemental appropriations bill that would provide an extra $20 million for TAA training and relocation assistance for fiscal year 1987. The Senate Appropriations Committee had reported a similar bill, but the Senate had not yet acted.

[13] JTPA programs are operated on a program year which runs from July 1 to June 30 of the following year. Congress appropriates funds for these programs in advance, by fiscal year. For example, Congress appropriated $100 million for Title III programs for fiscal year 1986, which began Oct. 1, 1985 and ended Sept. 30, 1986. States began spending fiscal year 1986 funds on July 1, 1986, which was the beginning of the 1986 program year. Thus, program year spending begins about 9 months after it is appropriated. In early 1987, many States had exhausted their allocations of fiscal year 1986 money. Although funds for fiscal year 1987 were already appropriated, at $223 million for the year, States could not start spending that money until the new program year began on July 1, 1987. Not all States had exhausted their formula money; a number have not been very active in providing Title III services, and have amassed unspent funds. See the discussion of spending for Title III programs in U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment,*, op. cit., pp. 186-189.

[14] In mid-March 1987, there was about $7 million left in the Secretary's discretionary fund, to last through June 30, but there were already proposals in the pipeline for much of the remainder.

Extended Income Support

Historically, extended income support for the unemployed has been the major benefit of the TAA program for workers. From 1975 to 1986, nearly 1.5 million trade-affected workers received TRAs, and 55,000 are projected to get TRA benefits in fiscal year 1987.[15] The basic benefit is a guarantee of 52 weeks of income support payments at the level of the individual worker's unemployment insurance. Since UI usually lasts only 26 weeks, TRAs cover an extra 26 weeks of unemployment. (As noted earlier, workers in training can receive TRAs for 52 weeks, added to the regular 26 weeks of UI.) TRAs are an entitlement. Once a worker is certified, and applies for his TRA within the prescribed time, he automatically gets it.[16]

One argument for TRAs is that trade-affected workers are likely to remain unemployed longer than the average person who is out of work, because they are more likely to have to change their industry or occupation to get a new job. Thus they need extra time to adjust—to learn a new skill or look for a different kind of job. Whether TRA payments actually help trade-affected workers' adjustment in this way is by no means certain. Some analysts argue that extended income support may be counterproductive, postponing the time when the worker must come to terms with the loss of the old job and seriously look at training, reemployment, or relocation options. One study of displaced workers (not just trade-affected workers) found that those who remained out of work the longest before finding a new job took greater than average pay cuts when they did finally get reemployed. This suggests, said the authors, that a long spell of joblessness may mean that a worker has particularly severe adjustment difficulties, but that extended job search does not, on average, produce better jobs.[17]

The arguments in favor of TRAs are, first, that they are a part of the bargain government made with workers, exchanging adjustment benefits for a policy of free trade and, second, that TRAs are a small price to pay for the advantages of free trade. One analyst, advancing both equity and political arguments for TRA benefits, advocates large lump sum payments to workers displaced by trade, funded by a small tariff on imports.[18] The reason for paying TRA benefits in one lump sum is that it avoids linking benefits with duration of unemployment, and thus possibly discouraging workers from finding a new job as soon as they can. According to this analysis, a payment of $24,000 each would compensate displaced steel and auto workers for the loss of roughly one year's salary (omitting non-cash benefits).

Most of the State Title III and TAA officials interviewed by OTA were eager to keep the TRA income support feature for workers in training, indeed to extend it to all displaced workers, not just trade-affected workers. Less support was voiced for TRAs that are not tied to training. In Massachusetts, however, one ES official said that trade-impacted workers deserve a little bit extra, and that TRAs are needed especially for older workers whether they are in training or not, because it is hard for them to find new jobs. The Administration proposal to abolish TAA and replace Title III with a new worker readjustment program open to all displaced workers would allow Federal grants to be used, to a limited degree, for extended income support for people in approved training courses. To qualify, workers would have to opt for training by the tenth week of their UI benefit period. This is another approach to discouraging workers from tacking on training as a way of extending income support payments.

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[15] As noted above, this estimate is probably on the low side.

[16] As noted earlier, TRAs are drawn from the Federal Unemployment Benefits Account, which receives an annual appropriation and funnels the money into TRAs. If the FUBA account runs out, as it did in fiscal year 1986 when TRAs unexpectedly mounted up to $119 million, TRAs can be drawn from another account that supplies advances as needed for several entitlement programs. If that account runs dry, the Labor Department can ask Congress for a supplemental appropriation.

[17] Michael Podgursky and Paul Swaim, "Labor Market Adjustment and Job Displacement: Evidence From the January 1984 Displaced Worker Survey," report to the U.S. Department of Labor, Bureau of International Labor Affairs (Amherst, MA: University of Massachusetts, Department of Economics, 1986).

[18] Louis Jacobson, "Trade Adjustment Assistance: An Assessment," paper presented to the National Council on Employment Policy (Kalamazoo, MI: The W.E. Upjohn Institute for Employment Research, 1986).

So long as extended TRAs are given to displaced workers who meet a quite restrictive definition of trade-affected, one might argue that it is only fair to give similar extended income support (or alternatively, lump sum payments) to all displaced workers. Almost no one does, however. One reason is that the equity argument weakens as the connection between displacement and foreign competition becomes less clearly visible. Another reason is that extending TRAs to more people would cost extra money. Assuming, for example, that about 600,000 more people per year would collect TRAs if all displaced workers were eligible, and that the average payment to a TRA beneficiary were $3,200, the extra cost would be about $1.9 billion per year.[19]

Another idea is to provide a temporary wage supplement to trade-affected workers who take new jobs at lower wage; thus, the worker would not have to be unemployed to get the benefit of income maintenance. This proposal recognizes that displaced workers usually have to take a cut in earnings when they get a new job. A temporary wage supplement, perhaps equal to half the value of a TRA payment, might encourage some workers to take a new job even at a lower wage, rather than holding out longer in hopes of getting a better one. These workers would have the benefit of getting back to work sooner than they otherwise would, gaining experience, and getting a start toward regaining some of their former earning power.

A variant of the wage supplement idea is the "reemployment bonus" that the Department of Labor and the State of New Jersey have included in a demonstration research project in the UI system. In the experiment, workers receiving UI are offered the chance, in their seventh week of unemployment, of collecting a cash bonus equal to half their remaining UI entitlement (about $1,500 in New Jersey) if they find a full-time permanent job within the next 2 weeks. The bonus declines by 10 percent a week, reaching zero at the end of the 18th week.

Difficulties With TAA

Some of the difficulties States report with TAA have already been touched upon. A source of great frustration at present is the scarcity of TAA money for training. The law requires that workers be advised to enter training, yet before the end of the first quarter of fiscal year 1987, the States were encountering delays, denials, and steep cutbacks in their training proposals, because the training money was fast running out.[20] In addition, many States concede that they do not meet the needs of their TAA clients for counseling and guidance, because their funds and staff are stretched too thin. Second only to their concern about training money, the States' most numerous complaints had to do with eligibility and certification of workers.

Delays

First, there are the delays in certification. The law allows 60 days for responses to TAA petitions, but when a flood of petitions comes in a decision by the Labor Department can drag on for 6 months or more. In fiscal year 1984, when 433 petitions covering about 36,000 workers were initiated, the average response time was close to the required 60 days. But in fiscal year 1985, over 1,000 petitions, covering 115,000 workers, came in, and in fiscal year 1986 nearly 1,300, covering 108,000 workers. Delays of several months in handling petitions were the rule, not the exception. In September 1986 the Department of Labor took several steps to speed up the response, including simplifying the collection and reporting of data, and delegating some of the work to the 10 regional offices of the Labor Department. By May 1987, officials reported that 85 percent of petitions were getting a response within 60 days.

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[19] A Bureau of Labor Statistics survey in January 1986 found that 10.8 million adult workers had lost jobs from 1981 to 1986 because of a plant closing or relocation, abolition of a position or shift, or slack work. About 3.2 million of these, or about 647,000 per year over the 5 years, were without work for 27 weeks or more after displacement. According to rough estimates by the Labor Department, approximately 55,000 TAA-certified workers are expected to collect TRAs in FY 1987 for an average period of 22 weeks, with payments averaging $147 per week. The estimate of $1.9 billion is based on the assumption that 592,000 extra workers per year (647,000 less the 55,000 who now receive TRA payments) would each collect $3,200 in benefits, if extended income support were open to all displaced workers.

[20] As noted, the House had voted a supplemental appropriation of $20 million as of May 1987, and the Senate was preparing to consider it.

Despite this improvement, some delay is inevitable in getting TAA certification. Even if 100 percent of petitions were processed within 60 days, that much delay would still seriously hamper the delivery of employment and training services to displaced workers. One of the critical elements for success in displaced worker projects is early action. A full range of services should be ready, if possible, the day of the plant closing or layoff, when demand for assistance peaks. A lead time of 2 to 4 months *before* the layoffs is needed for planning and preparation.[21] The law gives Title III programs wide latitude to respond quickly to plant closings; services can begin even before layoff if the employer gives notice in advance. A few States are organized to provide services effectively and quickly when plant closings or mass layoffs are announced, but most are not.[22] Many States are showing a keen interest in improving their rapid response abilities; the Labor Department is helping States learn how to do it; and bills from both parties and in both Houses of the 100th Congress proposed to strengthen rapid response mechanisms. Already, the possibility is at least there in Title III programs. In TAA it is not.

Another cause of delay is that many workers who would be eligible for TAA benefits do not know the program exists until long after they lose their jobs. The Department of Labor does not make aggressive efforts to inform State employment security agencies about the TAA program. In turn, some State agencies and local ES offices are far from adequate in informing workers.[23] Some are misinformed. For example, a group of steel workers who lost jobs at an Armco plant in western Pennsylvania were certified in the spring of 1983, and applied soon after for TRAs. ES officials told the workers they could apply if they liked, but there was no money to pay for benefits. This advice was not accurate; TRAs are an entitlement, drawn from the Federal Unemployment Benefits Account. Over a year later, some of these same workers decided to apply for training, and requested TRAs for income support. Now, they were told, their eligibility had expired. They appealed, and in this case their TRAs were restored. But such delays can be fatal to a worker's drawing benefits, because there are time limits to eligibility for TRAs.[24]

Eligibility: Drawing the Lines

Workers can be certified for TAA benefits only after the Labor Department investigates the firm they worked for, and finds that: 1) a significant number of workers in the firm have lost their jobs, or are threatened with job loss; 2) that sales or production, or both, of the firm have decreased; and 3) that imports of articles "like or directly competitive with" articles produced by the firm in question were as important as any other factor in causing the declines. Labor Department investigations are strict on this last point; proof is required that a firm's clients have switched to foreign providers of the same article the firm makes. Also, the influence of imports must be recent; the Labor Department looks at records of the firm for the past 2 years only.

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[21] For a fuller discussion, see U.S. Congress, Office of Technology Assessment, *Plant Closing: Advance Notice and Rapid Response*, OTA-ITE-321 (Washington, DC: U.S. Government Printing Office, September 1986), pp. 12-16. See also the conclusions in the Report of the Secretary of Labor's Task Force, op. cit.

[22] U.S. Congress, Office of Technology Assessment, *Plant Closing*, op. cit., pp. 28-32.

[23] Local ES offices vary widely in their knowledge of the TAA program and diligence in letting workers know about it. Some do an outstanding job. For example, in 1985 congressional hearings the Lorain, Ohio ES office and counselor Ella Tomka got high praise from a number of TAA-certified workers who were steered into effective training through Ms. Tomka's efforts. See U.S. Congress, House of Representatives, Committee on Ways and Means, Subcommittee on Trade, *Hearings* on Trade Adjustment Assistance for Workers, June 10, 1985, Lorain, OH (Washington, DC: U.S. Government Printing Office, 1985).

[24] Congress has recently responded to many reports of problems workers have had with time limits for TAA eligibility. As reauthorized under COBRA in April 1986, the eligibility period for TRAs was doubled; however, workers must still apply for training within 210 days of becoming eligible for TAA, in order to receive extended TRAs during training.

Further restrictions in the law exclude some workers who clearly are affected by foreign trade. Services are not covered. Oil well drillers, for example, submitted petitions in droves after oil prices plunged in 1986, U.S. exploration and production dropped precipitously, and oil imports rose. But the Department of Labor considered drillers to be service workers, and their petitions were denied. (Some petitions were also denied because imports were not considered to be the cause of declining sales or production.) Services are covered only if they integrated into a goods-producing enterprise. The present trend among many manufacturers is to shed some of their service divisions (engineering design, for example) and buy the services from independent firms—whose employees would not be eligible for TAA if they were displaced.

Another big exclusion is supplier industries. This is why shoe workers were certified when foreign shoes were coming to dominate the U.S. market, but workers who make rubber heels for the shoes were not certified. Rubber heels per se are not imported; thus the firm that makes them does not close down because of the import of a "like or directly competitive" article. The same is true of tires made for new cars. If General Motors sells 1 million fewer cars because of Honda or Toyota imports, the GM workers are certified; but the Goodyear workers who once made tires for those GM cars are not certified. The Labor Department applies the same rule to suppliers as to services, that is, they are covered only if they are employed by an integrated company. For example, miners producing coal for steelmaking in an integrated company, USX, are certified because USX is import-affected; but coal miners employed by an independent coal company, Pittston, that *sells* the coal to a steel company are rejected.

The legislation to reauthorize TAA that failed to pass Congress in December 1985 would have extended TAA eligibility to workers supplying essential parts and services to manufacturers experiencing declines on account of import competition. Such an expansion might cause some administrative problems, since second order import effects are probably harder to pin down. It would also cost more money. The same bill contained a new source of funding however; it authorized the imposition of a uniform tariff on all imported goods, up to 1 percent of their value. The Administration opposed such a tariff, partly on grounds that it was illegal under the General Agreement on Tariffs and Trade (GATT), and a Presidential veto was threatened. The bill would have required the President to negotiate with the other parties to GATT over the following 2 years to allow a uniform fee on imports for adjustment purposes. The idea of a tariff to fund TAA was still alive and attracting interest in the 100th Congress.

Another idea that has been broached from time to time, both to get rid of anomalies and inequities in certifying workers for TAA and to reduce certification delays, is to make findings of import injury for entire industries. The finding of declining sales and production would not be necessary for individual firms. In identifying trade-affected industries, it might make more sense to look at import trends over the past decade or so, rather than confine the observation to the past 2 years, as the Labor Department does for firms. Sometimes firms in industries confronted by rising imports are slow to react, and postpone technological or organizational changes that help the firm compete but call for reductions in the work force. (See box A for an example.) Thus, industrywide certification could extend TAA benefits to workers laid off from firms that are able to survive foreign competition, perhaps by adopting new labor-saving technology, or by trimming less profitable operations, or by sending some of their work offshore to places where costs (especially labor costs) are lower.

Another possible change, included in the House-passed amendments to TAA in 1985 (but not in the bill as reported by the conference committee) is to extend eligibility to workers laid off or threatened with layoff because of the relocation of production to another country.

Directors of displaced worker programs point out that the wait for TAA certification firm-by-firm not only delays the delivery of services to workers, but makes it very hard to plan, since you cannot confidently predict that a firm will be certified. In extending eligibility and making it more equitable, the change would probably bring more workers into the program, and cost more money. Also, identifying industries that are trade-affected poses some difficulties.[25]

The time limits on eligibility, mentioned above, have in the past been the cause of some workers failing to get benefits even when co-workers succeeded. In certifying groups of workers, the Labor Department establishes an impact date for the import injury; the individual worker's *first* layoff after that date starts the clock running on his period of eligibility for unemployment insurance and subsequently for TRAs. Until COBRA was passed in April 1986, the worker remained eligible for TRAs for 1 year after exhausting his eligibility for UI under that first layoff. COBRA changed that period to 2 years after exhausting UI eligibility under the first layoff following the impact date. The reason for the extension is that plants in decline do not always lay off everyone at once. If the impact date is set too late, some workers who actually lost their jobs due to the decline lose their eligibility. If the impact date is set earlier, some workers who have been laid off once, then recalled, and then laid off again later, have found their individual period of eligibility, reckoned from the first layoff, much reduced, compared to co-workers who were laid off later. The 2-year period of eligibility provides more flexibility to avoid such difficulties, but some persist. Some State officials suggest that, in addition, the period of eligibility should be determined by the last layoff, not the first.

A continuing source of inequality, sometimes found among workers from the same plant, is that the Labor Department certifies import injury by product. Suppose one plant makes toasters, toaster ovens, electric coffeepots, and waffle irons, and that only the first two are found to be injured by imports. Then only the workers making those items are certified—yet the whole plant may be moved or closed down, and everyone loses his job. The workers who made coffeepots and waffle irons are out of luck.

Ever since TAA began, a major difficulty has been that many workers never find out about it. Unions, employers, or as few as three workers in a group affected by imports may petition for certification. Unions have been the most active petitioners. The General Accounting Office pointed out in a 1977 report that 80 percent of petitions were filed by unions, but that only 35 percent of manufacturing workers were then represented by unions. In 1980, GAO reported that a new sample (taken in 1978) showed that 64 percent of petitions were filed by unions—still a disproportionate figure.[26]

The great variation over the years in total number of workers certified for TAA benefits reflects not only legislative changes but also shifts in Administration policy and Labor Department practice. As noted above, certifications that had been running at around 150,000 to 200,000 per year soared to 685,000 in fiscal year 1980, of which 592,000 were for auto workers; the Carter Administration policy in 1980 was to award TAA benefits generously to auto workers losing jobs to imports. When the Reagan Administration took office, the policy shifted to a clampdown on certifications. From 1981 to 1985, the Labor Department certified 20 percent or fewer of the workers applying. When the approval rate rose in fiscal year 1986, so did the number of workers certified; 92,000 workers were certified that year, compared to 25,000 in 1985. In the first half of fiscal year 1987 certifications were running at an annual rate of 110,000 to 140,000.

The Job Search Program Requirement

When Congress reauthorized TAA in April 1986, in COBRA, it added a requirement that workers must be enrolled in a job search workshop or job finding club in order to qualify for TRAs, unless the worker has already completed a job search program, or unless none is reasonably available.[27] These programs are meant to help workers learn how and where to look for jobs; many displaced workers have had just one job in their lives, and they got it simply by appearing at the plant gate.

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[25] See the discussion in the section entitled *Policy Issues and Options*.

[26] U.S. Congress, General Accounting Office, *Restricting Trade Act Benefits*, op. cit., pp. 32-35.

Neither Congress nor the Department of Labor has allocated extra funds to the Employment Service to provide job search programs to TAA-certified workers; ES offices are expected either to furnish the programs themselves or to refer workers to other programs, such as Title III or the Work Incentive Program (WIN), that can furnish them. Findings that no job search program is reasonably available cannot be made en masse; waivers must be written individually.

Of the 39 States OTA surveyed, 21 said they had no problems with the job search requirement or had experienced few so far. Some of these States had very few TAA-certified workers; others said they were meeting the requirement with job search programs already offered in their ES systems; others had set up new systems to cope with the requirement, and found they were working adequately so far. The other 18 States reported various degrees of difficulty. Some were not able to serve workers in rural areas and were giving them waivers; some feared that a big plant closing would overload their ability to provide the service. In five States, officials said they were already overloaded, and were waiving the requirement for many workers. Some officials expressed dismay that another burden had been put on the TAA or Title III programs with no extra money to cope with it. No one had any quarrel with the requirement itself; nearly everyone thought that job search programs are worthwhile. For example, a Wisconsin Title III official said,

> We've had trouble figuring out how in the world to pay for it. We don't have near enough money to do the Title III job, and now have another job shoved at us. It makes perfect sense to give TAA-certified workers job search training; paying for it is the problem. . . . We have a large need and small funds.

The Department of Labor's Role

According to some State officials, the U.S. Department of Labor made it difficult to get people into the TAA program in the early 1980s, but this approach has recently changed. One State administrator said:

> The TAA program got off the track in 1981. It just got back on last summer [1986]. They [the Labor Department] are not being advocates, but the approach is now much more open.

At the time of OTA's survey, there were complaints that the Department gives too little help to State agencies administering TAA, that as a result workers never hear of the program, and that if they do, they may be misinformed by ES or UI staff who do not understand the program themselves.

Several officials reported difficulties because of protracted delay in publishing TAA regulations. Eligibility and certification rules for TAA are complex; yet a compilation of the regulations implementing the 1981 amendments to the program (in OBRA) was not published until December 1986. To understand the Labor Department's rules on how to administer TAA, local officials would have had to keep a scrapbook of notices appearing in the Federal Register over nearly 6 years. In May 1987 the Labor Department reported plans to publish a set of proposed regulations for the TAA program as amended by COBRA in 1986 within a month or so.

Coordination Between TAA and Title III Programs

In early 1987, coordination between the two major programs serving displaced workers was improving but had a long way to go. Success in coordination is an important issue for several reasons. First, Congress has reauthorized TAA through 1991—the longest extension of the program since TAA was overhauled in 1981. Second, the Administration has proposed to replace TAA and Title III with one displaced worker program; coordination of the two programs, taking advantage of the strongest features of each, is an alternative. Third, the funding situation in 1986-87 made coordination of the programs a practical necessity in many States. Funds available for the Title III program year beginning July 1, 1986 were less than half those available for the previous program year; Congress cut the appropriation because, on a national basis, there was a large, continuing carryover of unspent Title III funds from one year to the next. However, the States that had been most active in serving displaced workers were the ones that felt the financial pinch most, since they had little unspent money from previous years.

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[27] The law defines a job search workshop as a short (1- to 3-day) seminar designed to teach participants skills in finding jobs; among the subjects the seminar should include are labor market information, resume writing, interviewing techniques, and techniques for finding job openings. A job finding club is defined as a job search workshop that includes a 1- to 2-week period of structured, supervised activity in which participants try to find jobs. The term "job search program" means either a job search workshop or a job finding club.

States are almost wholly responsible for planning and operating Title III programs; TAA services to workers are provided by State employment security agencies, through the local ES and UI offices. In a May 22, 1986 letter to the Governors, the Secretary of Labor urged States to

> . . . establish a common and coordinated delivery system for training, job search and relocation assistance . . . [that] will reduce duplication of effort, improve cost effectiveness and improve delivery . . . [28]

OTA's survey of TAA and Title III officials in 39 States found that all but four States make some effort at coordination. However, only about a dozen had some degree of real integration of services. The majority of States coordinated through a system one official described as "paper shuffling"; that is, TAA officials notify the Title III program when workers are certified, and Title III informs TAA of major plant closings and layoffs. While TAA officials in many of these States notify companies and unions of the program and the services offered, they usually do not take active steps to make sure that someone has petitioned the Department of Labor for certification. Actual coordination of services in most States is limited and uneven.

States give several reasons for their limited degree of coordination. Many report that the greatest barrier to coordination is the time it takes to get certification. A New Jersey official, for example, said that by the time the Department of Labor approves petitions, most of the workers have completed their stay in the Title III program, have exhausted their UI, and have either found work or left the program. For this reason, many States do not consider TAA an integral part of their displaced worker program, but view it as a fortuitous added benefit if certification is approved. Several States reported that certification has sped up considerably since regional Department of Labor offices took over part of the task of investigating petitions (starting in October 1986). One State (Washington) said that decisions were not only faster, but more consistent, since the regional offices have fewer petitions to deal with and have a better understanding of the history of certifications in their own regions.

Other reasons for the limited coordination in a majority of States were also offered. Some States, such as Pennsylvania and California, give a great deal of leeway to the local Service Delivery Areas (SDAs) in administering Title III services.[29] Thus, coordination of services depends very much on the SDA's knowledge of TAA and how it can be used to complement Title III. Some States referred to off-again on-again funding and authorization for TAA (the lapse in authority from December 1985 to April 1986 and the funding cuts of the early 1980s) and difficulties in coordination arising from uncertainty. In one State (Oregon), a Title III official said his program occasionally makes use of TAA benefits, but he does not generally favor the longer term training TAA provides because "it is tougher for workers to return to work and they grow reliant on UI." For this and other reasons (uncertainty of funding, delays in certification), coordination in Oregon is limited. Some States have been confronted for the first time with large numbers of displaced workers. In Alaska, which now has thousands of displaced oil and timber workers, a Title III official said:

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[28] The Honorable William E. Brock, Secretary of Labor, letter to the Governors, May 22, 1986.

[29] SDAs operate JTPA Title IIA employment and training programs for low-income workers. At the discretion of the Governor, they may also be put in charge of Title III programs.

> I only just found out about TAA. There was no real need for it until the bottom dropped out of the State's economy.

In the few States that make no effort at coordination, the reason is usually that they have had very few certified workers. There are States, however, that have a large number of TAA-certified workers and receive substantial TAA funds but operate the two programs as quite separate entities. For example, California officials saw no reason to combine the programs since they consider that Title III serves less skilled workers—many of them Hispanics and Asians who do not speak English and would require remedial education before retraining—while TAA serves workers with a long work history who usually do not require retraining but simply want benefits and a new job. The separation of TAA and Title III services extends to the local project level. In Santa Clara Valley, which has experienced the loss of tens of thousands of jobs in semiconductor and computer manufacture since 1985, managers of Title III were unaware, or barely aware, of TAA benefits, and reported that they had no linkage at the local level with TAA service providers.

Eleven of the States were able to achieve some real integration of TAA and Title III. Massachusetts is a leader. From the top managers of the State's Industrial Services Program, which directs both displaced worker services and assistance to firms that are in trouble, to the staff of local displaced worker projects, everyone is aware of the possibilities of combining benefits from Title III, TAA, vocational and adult education programs, and the State's own displaced worker program. The State's director of displaced worker services said: "TAA is the only way we've been able to make the money go far enough." Box B describes how coordination works in Massachusetts.

The States that work around the uncertainties in TAA and integrate it with Title III services share a common approach. All are creative in looking for the best features in each program—and in other programs as well, such as vocational and adult education—and combining them for the benefit of individual workers. Many of them foster coordination at the local or project level by requiring service providers to list every source of funding available to the project.

In integrated programs, workers are usually sent to Title III projects for assessment and counseling, job search programs, on-the-job training (OJT), remedial education, and—until TAA funds come through—classroom training. Title III can also pay for child care for people in training; TAA cannot. For eligible workers, TAA is reserved for long-term classroom training, the costs of transportation for training outside the normal commuting area, and out-of-area job search and relocation expenses. A number of the activities usually provided by Title III projects can be offered under TAA (on-the-job training, for instance) but the Title III service providers usually have more staff and administrative funds to plan and arrange for such services, and they can usually start sooner. Under Labor Department regulations, remedial education is defined as a supportive service, so that costs usually have to be covered by administrative funds (no one reported doing that). The Labor Department has ruled that TAA training funds can pay for remedial education when it is preparation for a vocational skills training course, and a few States, such as Massachusetts, do so. Title III projects can offer remedial education as training, independently.[30]

A near-universal feature of integrated programs is the States' aggressiveness in urging unions, companies, or a trio of workers to petition for TAA. In Texas, for example, the State

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[30] OTA found in its assessment of worker displacement (U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit. (1986)) that remedial education is largely neglected in Title III programs. However, this is not universal; some States take advantage of the Title III program to offer well-planned remedial education courses in an attractive setting. Many of these States are the same that do an outstanding job of coordinating TAA and Title III.

Box B.—Coordinating TAA and Title III Programs: How Massachusetts Does It

In Massachusetts, the TAA program for trade-affected workers and the Title III program for all displaced workers, under the Job Training Partnership Act, are essentially one program. In charge of all services for all displaced workers, whether trade-affected or not, is the Industrial Services Program (ISP), a 3-year-old agency with dual responsibilities—to business (technical and financial assistance to firms in trouble) and to workers (reemployment and retraining help for people losing jobs due to plant closings and permanent layoffs).

Suzanne Teegarden is director of worker services for the ISP. Her approach is to cut through the bureaucratic thicket and put together every possible source of help for every displaced worker. With TAA it is not easy, mainly because certification is slow and uncertain. Teegarden and her colleagues believe strongly in the value of early action to help displaced workers find new jobs or get into training. The ISP moves in rapidly, within a day or two, whenever it gets news of a plant closing or major layoff. A reemployment and retraining project is set up in the plant, if a large enough number of workers is involved. In a small layoff, the workers are referred to a continuing displaced worker center nearby.

ISP staff members go to the site of the closing with TAA petitions in hand and make sure someone signs them. But they cannot wait on TAA certification to start a project. Despite recent improvements, it still takes several weeks after the petitions are filed to get the decision, and not long ago it was typically 6 to 9 months. The project gets started with State funds; employers are asked to contribute staff, space, and funds too if they can. In theory, the project could start up with Title III funds, but there are often delays in getting these grants. Usually, Title III money kicks in second, paying for a variety of employment services and short-term support for training, and after that TAA, which is counted on especially for long-term training. But meanwhile, planning for training is chancy, because certification is not predictable.

In 1986-87, the problem of planning was acute, because Massachusetts had obligated all the Title III funds allocated to it early in the program year; Title III appropriations for that year had been cut in half from the year before, and States like Massachusetts with an active displaced worker program felt the pinch early. The State could apply to the Secretary of Labor for discretionary Title III funds, but there is no assurance of that either.

Teegarden offered the example of a leather goods plant in Agawam, where ISP applied for both discretionary Title III money and TAA and then had to wait for a decision on both. Meanwhile, ISP gambled and committed itself to occupational training courses for these workers, starting with State funds which were not enough to last the full course. "It was a crapshoot," said Teegarden. "But these were leather workers with specialized skills that are no longer in demand. Training was an obvious need." She suggested that some TAA training money be made automatically available for workers losing jobs in trade-impacted industries, to make access faster.

Although many States do not emphasize training for displaced workers, Massachusetts does. The statewide unemployment rate is much below the national average, but many plants are closing in the central and western parts of the State. ISP's goal is to get new jobs for displaced workers that pay at least 85 percent of their old wage, and for that, Teegarden says, skill enhancement is important. TAA is especially welcome, because the extra income support and longer periods of training really help people develop new skills. Besides, it sometimes takes time for people to commit themselves to training. Time is one of TAA's real advantages, Teegarden said, especially since many displaced workers need remedial education before they can begin an occupational training course. There simply is no time for that in a compressed training course, such as most Title III projects support.

Remedial education is a strong part of ISP's training. For example, at the Agawam plant, 38 percent of the people laid off did not have a high school diploma. A member of the project staff, a displaced worker himself, sold many of these workers on remedial education. Midway through the project, 68 of 371 workers who enrolled for services were taking remedial courses, and another 20 or so were expected to sign up. The ISP takes advantage of the Department of Labor rule that TAA training funds can cover remedial education if it is part of vocational training. Many States do not.

Teegarden was asked whether she would favor a single Federal program combining TAA and Title III. Considering the effort her agency puts into integrating the two, would it be simpler to deal with one? She was dubious. "Our fear is that they will take the worst parts of each program."

Title III program has a coordination agreement with the Texas Employment Commission, by which Title III pays salaries of EC staff members to go out and actively get TAA petitions started. The State's rapid response team keeps an eye on UI claims, and whenever the team notes a big jump in claims, it targets the area and alerts the Employment Commission. If the layoffs are due to import competition, either EC or Title III staff make sure that someone—usually the union or the company personnel director—files. If the company refuses and there is no union, they go back to UI records and find three workers who were laid off from the company, encouraging them to file. The system works. In the 9 months before the agreement was signed, Texas had only 28 applications for TAA; in 6 months afterwards, 256 petitions were sent forward. According to a Title III official, of all the resources available to displaced workers including Title III and vocational education, TAA is a major contributor.

Other than sending a letter to Governors urging coordination between the Title III and JTPA programs, the Department of Labor has generally not done much to actively promote it. An exception to this is the Region V office of the Department of Labor, located in Chicago. The office holds quarterly roundtable meetings of employment security agencies, TAA offices, and JTPA in the six Midwestern States the region includes (Illinois, Indiana, Michigan, Minnesota, Wisconsin, and Ohio). Discussion of the potential for coordinating TAA and Title III, and examples of what to do and what not to do, are leading topics at the roundtables. Several TAA and Title III officials in the region praised the roundtable discussions. One State (Wisconsin) said, "The roundtables have brought us (TAA and Title III) together; if not for that, we'd be much further behind." The regional office also fields questions about the programs on a daily basis and, according to the State officials surveyed, dispenses "excellent information." Four of the six States in this region have achieved some real integration of TAA and Title III services, and the other two are making progress.

Other regions have not followed suit. Region VI, in Dallas, held one meeting at the request of Texas officials, and Region X also held a meeting for the Pacific Northwest States. One State official (Texas) specifically commented that the coordination problems with Title III and TAA are at the national level, in the Department of Labor. This official offered the example that, in conducting TAA training for the Employment Service, the regional office of the Labor Department said Title III agencies would provide the job search programs required for workers receiving TRAs—without any idea that funds for Title III that year had been cut in half.

When OTA asked the States what changes they would like to see in the TAA program, the one most often put forward (in 19 States) was a shift toward more unified services for all displaced workers, whether or not the workers are trade-affected. In a unified program, open to all displaced workers, the nettlesome problems of delays in certification and arbitrary distinctions among workers on whether they are trade-affected would disappear. Most of the people who suggested this change insisted, however, that the best features of both TAA and Title III be kept. For TAA, the best features are seen as longer term, better quality and higher cost training combined with extended income support. For Title III, they are State responsibility for designing the program and control over most of the funds; a broader range of services, including remedial education; and the flexibility to move in and provide adjustment services before layoff.

It should be noted that the "best features" of TAA and Title III programs represent potential in some cases, not actuality. The superiority of TAA training was greatly diminished in early 1987 because funds had nearly run out. Not many States provide remedial education in Title III projects, and an effective rapid response to plant closings and mass layoffs does not yet exist in most States. Title III *allows* States to provide these services, however, and a few are effectively doing so.

TRADE ADJUSTMENT ASSISTANCE FOR FIRMS AND INDUSTRIES: ISSUES

The main issue concerning the TAA program for firms is whether it should exist. The Reagan Administration maintains that it should not, arguing that it is natural and inevitable for many firms to succumb to competition, foreign as well as domestic, and that the government has no business trying to save them. Congress, in reauthorizing TAA for firms through 1991, in effect made the judgment that the program is worthwhile, that given good technical assistance, some firms weakened by import competition can revive and continue to provide jobs and economic benefits to their communities. Since the reauthorization, however, Commerce Department administration of the program has hobbled its ability to offer technical assistance.

Aside from the current crisis in program administration, a continuing question is whether the certification requirements for firms—a showing that the firm's sales or production have declined, as a result of import competition—make sense. Should the program be restricted to firms that are demonstrably in trouble already? Or should firms throughout a trade-affected industry be eligible for TAA services, thus making it possible to offer assistance to firms with a better chance of survival—but also greatly enlarging the number of potential clients. This question, though not so pressing as the question of the program's continued existence, has some broad implications. In recent years the suggestion has been made, by OTA and others, that an industrial extension service of some kind might contribute to competitiveness of American industry.[1] The idea is for a government-supported program that would help small and medium-sized manufacturing firms learn about and apply up-to-date technologies and management practice. Several States have technical assistance programs along this line.

An assessment of the possibilities of an industrial extension service is beyond the scope of this special report, which is focused on the Trade Adjustment Assistance programs. However, the experience with TAA for firms does suggest, roughly at least, how a broader program of technical assistance to industry might work.

How TAA for Firms Operates

Before getting to the issue of survival of TAA for firms, let us first take a brief look at how the program operates—or how it operated before the crippling interruptions of authority and funding freezes that have occurred repeatedly since December 1985. Two features of the program stand out. First, the technical assistance the program offers is in-depth; typically, client firms receive 60 to 80 days of expert assistance in diagnosing competitive problems and developing ways to solve them. Second, the program takes time. The assistance itself is time-consuming because it is intensive; and the Department of Commerce approvals at three steps in the process, though usually done fairly expeditiously, add more time.

Twelve Trade Adjustment Assistance Centers (TAACs) operate the program through grants from the Department of Commerce; the grants have customarily been for 12 months (from December 1985 through May 1987 the TAACs received grants for no more than a few months at a time, and they are operated on short time extensions with limited funds). Annual grants range from about $700,000 to $2 million, and average a little more than $1 million each.[2] The TAACs' first step is to help firms prepare petitions for certification, claiming that sales and production declines are due to competition from imported products; weed out the clients who obviously cannot substantiate the claim; and send the petitions on to the Commerce Department for a decision. The department verifies the claims, usually by telephoning the firm's customers, and decides whether the firm is eligible. If many petitions are being submitted, these decisions may take longer than the 60 days the law allows, but such delays have generally been shorter than in the TAA program for workers.

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[1] U.S. Congress, Office of Technology Assessment, Industry Technology, and Employment Program, *Development and Diffusion of Commercial Technologies: Should the Federal Government Redefine Its Role?* staff memorandum, March 1984; see also H.R. 4361, the Advanced Technology Foundation Act, a bill proposed in the 98th Congress.

In interviews with OTA, officials of one TAAC said that any firm coming to it is allowed to apply for certification, so long as the firm appears to meet the criteria of declining sales or production due to imports. The other TAACs do some informal screening. Although they accept the principle that any trade-affected firm has a claim on assistance, they do sometimes discourage clients from preparing petitions if they see little chance that the firm can recover. In making this judgment, the TAACs put greatest emphasis on management's flexibility and willingness to make changes. If the client seems to be looking only for a quick financial fix, for example, the TAAC counselor may emphasize that the firm will have to bear at least 25 percent of the cost of technical assistance. Or if a client appears to be on the brink of insolvency, the TAAC may point out that recovery measures will be slow and long-term. In this way, the decision not to proceed is generally mutual; TAACs do not simply turn away clients. At least one TAAC (Western) does require that before it gets involved with a firm, the management must already have made some changes in response to problems. The idea is that a firm that initiates its own adjustment shows a commitment to change, and also improves its ability to get financing to carry out an adjustment plan.

Once a firm's petition is approved, the TAAC conducts a diagnostic survey, which includes a scrutiny of the firm's financial situation, its system of management information and cost controls, its product development, marketing plans and sales efforts, as well as its operations on the shop floor. To stay in the program a firm must be willing to open its books. The diagnostic study is a critical piece of the program, since it determines the direction the adjustment plan will take. Usually, the TAAC's technical staff does the diagnostic study; most TAACs, when fully staffed, have people with training and experience in industrial engineering, finance, and marketing. Sometimes, for a client in an unusual or highly technical business, the TAAC may hire a consultant for the diagnostic study. TAAC and the firm together formulate an adjustment plan based on the diagnosis, specifying what the firm needs for recovery and the kind of technical assistance it will ask for. The study and plan generally take 6 to 8 weeks to complete. An adjustment proposal must be sent to the Department of Commerce for approval, which usually takes about 3 weeks.

The next step is to find contractors who can provide the technical assistance that the adjustment plan calls for. The firm may need a market survey, to determine whether a new product it is planning will find any customers. It may may need engineering help in designing a new product. It may need to install and learn how to use a management information system that will identify production bottlenecks that raise costs. It may need a manufacturing engineer to look over and redesign shop floor operations. Technical assistance may cover any of these things; but it cannot cover the purchase of equipment or the provision of working capital. For technical assistance that costs an average of $75,000, firms must pay at least 25 percent; the firm's share rises with increases in cost beyond that level. Usually, the TAACs bring in a consultant with specialized skills to provide technical assistance; they are chosen by competitive bids, and their contracts must be approved by the Department of Commerce.

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[2] This description of how the program operates comes from interviews with and materials provided by officials of the Department of Commerce and the TAACs. For this special report, OTA interviewed policymaking officials and staff members of the Office of Trade Adjustment Assistance (OTAA), the agency in the Commerce Department which oversees TAA for firms. OTA also interviewed by telephone and in two site visits the directors and staff members of 11 of the 12 TAACs. The only TAAC not represented in the telephone survey was the Mid-America TAAC, located in St. Louis, which had just been created with final approval pending in the Department of Commerce. The Mid-America TAAC was previously located in Little Rock, AR, but it ceased operations in 1986. TAACs surveyed by telephone were New York State, Binghamton, NY; Metro New York, New York, NY; New Jersey, Trenton, NJ; Mid-Atlantic, Philadelphia, PA; Great Lakes, Anne Arbor, MI; Mid-West, Chicago, IL; Rocky Mountain, Boulder, CO; Northwest, Seattle, WA; and Western, Los Angeles, CA. The TAACs visited by OTA staff were New England, Boston, MA, and Southeastern, Atlanta, GA.

Assuming things go smoothly and there are no hitches, the process outlined here takes at least 6 to 8 months. Many firms meanwhile take steps on their own to follow suggestions made in the diagnostic study and adjustment plan. Others take longer than a few months to mull over the TAAC's diagnosis and recommendations, and decide whether to proceed. In any case, they must have enough strength to survive several months at least before getting the adjustment assistance that has been designed to meet their needs. Boxes C and D describe the experiences of a New England clockmaker and a couple of garment manufacturers in the South with technical assistance provided by TAACs.

Firms served by the TAACs are relatively small. In the last 2 years the TAACs were in full operation (fiscal years 1984 and 1985), the TAACs each added an average of about 30 certified firms to their rolls, and had adjustment assistance plans approved for 15 firms each, on average (see table 5). The expenditure per firm certified works out to about $37,500 per year; adjustment assistance, if carried to completion, generally costs about $75,000 per firm—not enough to do much for a large firm.[3] The typical TAAC client has sales averaging about $5 to $10 million per year and 100 to 150 employees; although quite a few smaller firms, with sales of $1 to $2 million, are also served. Service to firms with sales more than about $30 million per year is unusual. All the firms served are in manufacturing, since TAA does not cover service industries.

No other Federal program—probably no State or local program either—operates quite as TAA does to provide sustained, sophisticated technical assistance to small and medium-sized manufacturers. The Economic Development Administration (EDA) gives grants of about $7 million per year to universities, local governments, or nonprofit organizations for several purposes related to economic development in areas of high unemployment and poverty. Activities include technical assistance to local businesses and programs to help local governments learn about economic development. The Department of Defense offers assistance to small companies, usually subcontractors, who lack the sophisticated equipment needed to meet military specifications.

The Small Business Administration offers grants to Small Business Development Centers, which are operated by the States and offer counseling and training to small businesses. Counseling, given to 72,000 firms in fiscal year 1986, helps owners deal with specific difficulties that arise in their day-to-day operations. Training, provided to nearly 260,000 firms in 1986, is given in seminars or classes that teach basic business skills such as marketing or cost control. The average time spent with each firm is 7 to 10 hours. Most of the firms are small, some with as few as one or two employees, and nearly all are in services, mainly retail trade. The SBDCs concentrate on firms that cannot afford to pay someone for advice. The counseling and training they provide is free; often volunteers from the Service Corps of Retired Executives offer the assistance. Funding for the program in fiscal year 1986 was $35 million.

A number of States offer technical assistance to manufacturing firms, often as part of their economic development programs. OTA has not assessed these programs, but from a brief look it appears that many provide services that are much shorter in duration than those the TAACs provide. For example, the highly respected Industrial Extension Service of the Georgia Tech Research Institute usually provides 3 to 5 days' service to its clients, with the limit rising to 10 days for firms that are expected to provide new jobs. The Georgia Tech program is one of the

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[3] Information supplied by the TAACs.

Box C.—New Life for a Ninety-Year-Old: TAA Helps New England Clock Firm Survive

The Chelsea Clock Co., founded in Chelsea, MA, in 1897, is the only one of the old New England clockmakers left. Others still have their names on the clock cases, but the innards are made in Europe or Japan. Chelsea Clock, housed in its 19th century brick building in one of the old industrial towns ringing Boston, makes fine timepieces from scratch and guarantees them for a lifetime—the clock's lifetime, which means as long as anyone wants to keep it.

Until a few years ago, the company made clocks the traditional way with spring-wound movements, despite the quartz technology revolution. Yachtsmen, clock collectors, and companies looking for a handsome gift for retiring employees remained steady customers for a timepiece handmade of brass and fitted with gold-plated works that you could watch through the back of the case. But in the early 1980s, the new technology began to catch up with the company. Customers started to balk at paying several hundreds or thousands of dollars for a thing of beauty that didn't keep time as well as a $10 clock from the corner drugstore.

Richard Leavitt, president of Chelsea Clock, is a former accountant who bought the company in 1978. By 1982, he realized that, even though dollar sales were holding up, the number of clocks sold every year was sliding fast, from 14,000 in 1980 to 9,000 in 1983. Twenty of the firm's 70 employees had to be laid off. First Leavitt tried putting the standard plastic quartz movement into a Chelsea clock, but he didn't like it and neither did his clock-fancier customers. He knew his company was best off holding on to the fine clock part of the market, where sales of 15,000 to 20,000 clocks a year would be enough to keep his small firm prosperous but not enough to tempt giants like Seiko into competing, probably with a good looking but lower cost clock. He also knew he wanted a fine electronic movement for the Chelsea clock. But the technical expertise to design it was beyond his means to buy (he had already mortgaged his house to put money into the company), and banks don't readily lend money to buy designs. They can't foreclose on a design.

Leavitt learned about the Federal Trade Adjustment Assistance program, which provides technical assistance to firms hurt by imports, just as he was concentrating on how to raise the money for developing a high-quality quartz movement. The New England Trade Adjustment Assistance Center (TAAC) helped to diagnose the firm's problems and write a proposal, which the Department of Commerce approved, for a recovery plan. The project included a market survey as well as development of the quartz movement. The Cambridge consulting firm Arthur D. Little Inc. did both pieces of work, and Federal grant money paid two-thirds of the $100,000 cost; the company paid the rest. When the market study found that customers would buy a high-priced clock with brass parts—but not plastic parts—the design team created a movement with gold-plated brass plates, gear wheels that are cut not stamped, and synthetic jewels at points of wear.

So far, the plan is succeeding. The company's sales and profits have risen, and Leavitt plans an aggressive sales effort to add more fine gift shops and jewelry stores to his customer list. Most but not all of the work is done at the plant; cases for the top-of-the-line clocks are imported from Switzerland, but Leavitt plans to bring that work home. The shop already makes its own cases for ship's clocks, which have long been a staple of the Chelsea business. The plant has kept its 50 workers, many of whom are 20-year veterans, and include precision assemblers, machinists, inspectors and testers, and a master clockmaker.

Leavitt gives high marks to the New England TAAC for helping to make the company profitable and competitive. He says he would have done the project eventually without the TAA help if he'd had to, but at much greater risk. The cost of the project was as much as the firm's entire profits in a good year. Without help, Leavitt would have been obliged to bet the company, and if the bet didn't pay off soon enough, Chelsea Clock would have become a hollow company.

The other New England clockmakers have already taken that path. "We could have followed the pack," Leavitt said, "and used the Chelsea name to put on products we import. We chose the more difficult route, keeping responsibility for design and manufacture. That translates into jobs here rather than to people in other countries."

Box D.—Made in the USA: Trade Adjustment Assistance for Apparel Manufacturers

Introduction

Garment making is still a very large industry in the United States, despite increasing imports. In 1986, employment in the industry was 1.1 million; this compares to 815,000 in the auto industry and 266,000 in basic steel. Certainly, imports have made inroads. One-quarter of the amount Americans spend for apparel and other textile products goes for imports. Despite the highly structured quota protection under the Multifiber Arrangement, imports rose to a new high in 1986 —$17.8 billion. This compares to $2.3 billion (about $5.3 billion in 1986 dollars) in 1973. And employment is down from its 1973 peak of 1.4 million.

Yet in some ways apparel is holding its own. Employment and output in steel mills, for example, are both less than half of what they were in 1973. Jobs in apparel have declined only about 20 percent, and output in constant dollars has risen over 9 percent. Granted, jobs in apparel are poorly paid compared to the average manufacturing wage ($5.86 per hour vs. $9.83), and are taken mostly by women and minorities. But to many of the people holding them, these are the best jobs available anywhere near home.

The Southeastern TAAC, located in the Georgia Tech Research Institute in Atlanta, specializes in technical assistance for small and medium-sized apparel and textile firms. Much of rural Georgia and the Carolinas is economically dependent on textiles and apparel. A generation ago, when these industries were leaving New England for the lower wage South, the Southeastern States made energetic efforts to attract them, especially to the rural counties that were losing tens of thousands of farm jobs with the rapid mechanization of agriculture. Now, Georgia and the Carolinas are trying to save these industries from lower wage competition in Asia, Mexico, and the Caribbean.

Aiken Industries

The TAAC's part in all this is to help firms like Aiken Industries, a family-owned and run apparel plant in Aiken, South Carolina, survive and prosper. Cary Friedman, the plant manager and son of the founder, heard about the TAAC's services through an industry newsletter in 1984, at a time when the plant was losing sales and profits were declining. Friedman knew the firm had to change to survive, but he didn't know exactly what to change, nor was the firm doing well enough to pay for both technical advice and any new hardware that might be needed. The TAAC sent its apparel expert, a former private consultant to the apparel industry, to diagnose the firm's troubles and work with Friedman on an adjustment plan.

Aiken Industries is a typical small (135 employees) "cut-and-sew" operation. It receives fabric from a larger apparel firm and returns the finished goods; essentially, it is selling labor, including managerial labor. A firm like this can survive by doing quality work, accepting fast turnaround orders (such as re-orders of popular items) that would take too long for foreign competitors to fill, and squeezing out unnecessary costs. The TAAC's contribution was to help Aiken Industries control costs. The diagnosis showed the need for a management information system for cost analysis and control. The company spent $20,000 for a computer and software, and the TAAC expert taught Friedman how to interpret the data to pinpoint areas of excess labor cost. ("Excess cost" is a term of art in the apparel industry; there is always some excess cost, but well-run firms reduce it to a minimum.) Georgia Tech Research Institute trainers, available through the TAAC but paid for by the company, taught first line supervisors how to reduce costs in the areas identified—for example, by seeing that machines are repaired quickly if there is a breakdown.

When the project started, the TAAC expert estimated that Aiken's excess costs could be cut in half. By early 1987, the company had achieved 60 percent of that by following the adjustment plan and paying for the improvements it identified. The last piece of work was yet to be done, however. The plan called for an engineering consultant to improve shop floor operations. This was the technical assistance the TAAC promised to help pay for; it would cost $90,000, of which the firm would contribute one-third. But the TAAC was unable to pay for technical assistance, because it had not received any fiscal year 1987 funds from the Department of Commerce, and was authorized to stay in business for only 1 or 2 months at a time.[1] The Friedman family, Aiken's owners, felt that they could afford to risk $30,000, but not $90,000, for the engineering consultant.

The failure to come through with funds for the consultant was Friedman's only criticism of the TAA program. At this point, he said, "For the government not to help me be more competitive would be crazy." Otherwise, he had nothing but praise for the program, and freely gave it credit for the firm's turnaround.

Burke Industries

An apparel firm that completed its TAA adjustment plan with successful results is Burke Industries of Waynesboro, Georgia. Jack Steinberg, Burke's owner and manager, has been in business in Waynesboro for over 25 years and now specializes in denim jackets, an exacting item that requires over 40 operations. Burke has also recently won a contract for military clothing, and expects to add 100 more people to its work force (early in 1987) of 160.

Despite the firm's experience and good reputation, Burke nearly went under in 1982-83, when the combined effects of the recession and rising imports knocked many American apparel firms out of business. Steinberg heard about the TAAC at the industry's annual meeting and fair (the Bobbin Show in Atlanta). Just an initial talk with a TAAC expert gave him some ideas, he said. He pulled the firm through its immediate crisis by selling finished garments to retailers.

For the longer haul, the TAAC made several major contributions. At its low point, the firm was strapped for cash. The TAAC expert helped Steinberg devise a financial program, and went with him to the local development board which, after looking over the plan to improve the company's prospects, approved a loan. As it did for Aiken Industries, the TAAC advised Burke to install a computerized management information system, and showed him how to use it. The system has paid off in identifying areas of excess cost. The TAAC also advised Burke to use a modified system of in-process statistical quality control, in which inspectors examine a sample of garments before the sewing operations are completed. Burke inspectors also look at every finished garment before it goes out. The in-line sampling combined with the final audit have reduced defects enough that customer rejections have gone down from two or three shipments a year to zero. In addition, Burke, like Aiken, got training for its first-line supervisors from Georgia Tech experts.

The most notable change due to the TAAC's advice resulted from an engineering consultant's suggestions on re-arranging the cutting room. He proposed to get rid of stored fabric that no one was using, to use fewer cutting tables and make them uniform in size and shape, and improve the traffic pattern. These seemingly simple suggestions allowed Steinberg to reduce his staff in the cutting room from 20 to 8.

Steinberg observed that many of the TAAC suggestions, once they were made, seemed obvious. But like most small businessmen, he was so busy with a multitude of tasks that he never had a chance to step back and determine what changes he needed to make, and which to do first. He gave the TAAC full credit, not only for providing technical expertise that he lacked (how to use the computerized management information system), but also for identifying the most urgent actions the company had to take. "The improvements they helped us make were really and truly dramatic," Steinberg said.

Burke Industries is now offered five times as much business as it can handle, Steinberg says. The firm has recovered strongly and its outlook is good, at least for the time. "The advantage we've got," Steinberg says, "is that we can deliver on time. To get deliveries from overseas, you have to order a year ahead of time. If we ever lose that edge, we've lost it." While he has it, the firm employs 150 to 250 people a year, and is a mainstay of the local economy.

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[1] In March 1987, the Southeastern TAAC received about $100,000 in a grant from fiscal year 1987 funds, and a time extension through June 15. In earlier years, this TAAC received about $1 million for a 12-month grant. In May, the Commerce Department requested a proposal for a 12-month grant.

most experienced in the country. It was established in 1960, now has 12 centers staffed by engineers and other professionals throughout the State of Georgia, and is funded by the State at $2 million per year.

TAA for firms began with a strong emphasis on loans and loan guarantees, but that part of the program is now defunct. TAA financial assistance was at its height at the end of the 1970s, reaching $70 million in 1980. Under the Reagan Administration, loans and loan guarantees were scaled back sharply, declining to $900,000 and just two firms in 1986, the last year TAA financial assistance was offered. When requirements for loans were not very stringent, as was apparently the case in the late 1970s, numerous firms qualified but default rates were subsequently high. When requirements were tightened, the number of firms getting loans or guarantees dropped sharply. To qualify, firms had to show evidence that they could pay back the loan, and at the same time show they could not get private financing—a difficult combination. Also, in the last 2 or 3 years of the program, loan approvals met with long delays—usually more than a year—in the Commerce Department; Commerce officials themselves describe the time it took for approvals as "interminable."

TAA financial assistance to firms has few defenders today. Because of the delays and the stringent requirements for firms to qualify, most of the TAAC officials interviewed by OTA did not regret the loss of the loan program. Several said they considered technical assistance more efficient and valuable in any case; if firms need money to carry out their adjustment plans —as many do—the very fact that they have an adjustment plan makes them better prospects for private loans. Also, loans or guarantees may be available from other Federal sources (such as the Small Business Administration), or State or local agencies. For example, one Georgia garment manufacturer who had previously had no luck with a community economic development agency got a loan when the TAAC counselor accompanied him to the agency and explained the recovery plan. Three years later, the company was in good shape, and expanding. An official of another TAAC (New England) said that most firms served by his TAAC need management changes, not a quick financial fix, for long-term survival; the main purpose the loan program served, he said, was to draw people who could use help into the technical assistance program.

Should TAA for Firms Continue?

The Administration's arguments against continuing TAA for firms are that it does not work, and is not justifiable anyway, because firms injured by imports do not merit any special help beyond what is available to other firms. Officials in charge of the program add that it is hard in any case to draw the line between injury caused by increased imports and plain inadequacy of management. It is also argued that, in a dynamic society operating under a free trade philosophy, TAA is often directed to firms in industries that are dying a natural death. TAA is "fighting the inevitable."[4]

Proponents of the program are not very organized or visible, but they include business people who have received technical assistance. Many individual firms have high praise for the program, and credit it with their improvements in sales and profits.[5] Those who favor TAA for firms believe it works—not in every case, possibly not in the majority of cases—but often enough, and with enough benefits to the public as well as to the firms concerned, to justify the program. The equity argument—that special help is due those who are injured by the Nation's free trade policies—does not apply in quite the same way to firms as to workers.

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[4] This argument is emphasized in U.S. Department of Commerce, Office of Inspector General, *International Trade Administration Trade Adjustment Assistance: No Cure for Import-Injured Firms* (Washington, DC: Department of Commerce, 1985), see especially pp. 12-13.

[5] See, for example, U.S. Congress, House Committee on Ways and Means, Subcommittee on Trade, *Hearings: Trade Adjustment Assistance for Firms, April 6, 1985—Atlanta, GA; Trade Adjustment Assistance for Workers, June 10, 1985—Lorain, OH*, 99th Cong., 1st sess. (Washington, DC: U.S. Government Printing Office, 1985); also, five client firms visited by OTA staff in December 1986 and January 1987 said they knew of no other program providing the high quality, sustained technical assistance given by the TAACs, and attributed their improved performance to TAAC assistance.

Workers must earn a living; firms don't necessarily have to stay in business. Yet, firms are owned and managed by people, and employ people; those people may be thought to have a claim on the government for help if government policies do them economic harm. Moreover, if a government program helps to save a business, that may well be a better outcome than trying to adjust to the loss of all the jobs that go with it if a business fails.

Whether the TAA program for firms works is a central question. Two recent evaluations of the TAA program for firms come to quite different conclusions. A report by the Office of Inspector General in the Department of Commerce, issued in March 1985, concluded that the TAA program successfully aided only 3.6 percent of clients requesting assistance and 13 percent of those completing adjustment plans. The report said that although some aspects of the assistance process—such as timeliness—could be improved, "intractable national and international economic and market conditions [e.g., low labor costs and subsidies to industry in other countries, the strength of the dollar] prevent the program's success."[6] The report praised TAAC personnel as dedicated and well-qualified, but said "the adverse environment in which the program must operate remains unyielding and overwhelming."[7]

A May 1985 report prepared for the Department of Commerce by a private consultant firm, HCR, found that 35 percent of firms receiving technical assistance from the TAA program were better off than they were before entering the program—and better off than the average firm of their own size and kind; 79 percent of all the firms sampled were still in business.[8]

Because of congressional interest in determining whether TAA for firms is worthwhile, and because the experience with TAA may be a useful guide for other industrial extension service programs, a close look at the methods and results of the two studies is in order. Several factors help to explain the wide divergence in the results, and to cast substantial uncertainty over both. The interpretation of data, definitions of success, and time period chosen (the 1982-83 recession) in the Inspector General report all tend toward pessimistic results; the report very likely understates the program's successes. The HCR study lacks the detailed descriptions of individual firms that appear in the Inspector General report, and its data have been criticized by the Department of Commerce as inaccurate, erring on the optimistic side.

The Inspector General Study

The Inspector General report first looked at the 370 firms certified in 1982 and 1983 at six TAACs (Midwest, Mid-Atlantic, New Jersey, New England, Southeastern, and Metro New York), and found that 269, or 73 percent, dropped out of the program after being certified but before reaching the phase of implementing an adjustment plan (generally, before an adjustment proposal was written). Selecting the Midwest TAAC, with a 74 percent dropout rate, as typical, the report interviewed or reviewed files of the 65 firms certified at that TAAC over the 2 years to discover the reason for the "tremendous percentage" of firms dropping out. Summing up the reasons 47 firms gave for dropping out, the report classified 33 percent as "dissatisfaction" with the program, 24 percent as "disabling financial conditions," and 15 percent as miscellaneous.

Yet the client responses, as summarized in the report, could be interpreted quite differently. In many cases, it appears that "dissatisfaction with the program" amounted to disappointment that TAA would not provide a quick loan, or that the firm had to pay 25 percent of the cost of technical assistance, or that the program did not provide some kind of trade protection. Thus, one might well interpret the results as showing that the TAAC was weeding out firms who were interested only in finding a source of ready money, and were not willing and able to make management changes that would improve their chances of surviving. For a program with limited resources and the goal of providing intensive assistance, some kind of triage is certainly necessary. The TAAC might be criticized for failing to make clear the nature of the program before sending on the petitions for certification; perhaps more firms could be weeded out at an earlier stage, before they are certified. It should be kept in mind, however, that 1982 and 1983 were the years of the deepest recession in 50 years; it is likely that more firms than usual were unable to pay anything for an adjustment program.

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[6] U.S. Department of Commerce, Office of Inspector General, op. cit., p. 12.

[7] Ibid., p. 14.

[8] HCR, *Evaluation of the Adjustment of Firms Assisted by the Trade Adjustment Assistance Program: Economic Experience of Client Firms Since 1981*, report prepared for the U.S. Department of Commerce, Office of Trade Adjustment Assistance (Washington, DC: 1985).

A different kind of complaint, appearing quite often in these cases, was that TAA help was too slow in coming. The average time for completing adjustment plans ranged from a low of 1 year to a high of more than 6 years, with an average of 2 years 8 months. Some of this delay is unavoidable, arising from the nature of assistance in the TAA program (see the discussion below), but some might be avoided by improving TAA procedures.

The most serious charge against the TAA program in the Inspector General report is that its success rate was a "dismal" 3.6 percent. This extremely low figure was produced by examining 38 firms in four TAACs that completed implementation of adjustment plans in 1982 and 1983 and concluding that five, or 13 percent, adjusted successfully due to TAA efforts. This percentage was then applied to the 101 firms remaining in the programs of the six TAACs, yielding 13 cases expected to be successful. The 13 cases were then divided by 370 (the number of firms certifed by the six TAACs in 1982 and 1983), producing a figure of 3.6 percent, which was termed the success rate. This puts the success rate in a very unfavorable light. It implies that every firm that is certified should receive service, and that success must be judged by the ability of the TAACs to help all of the firms certified, whether or not they received service.

Another measure of success is the percentage of cases coming to completion that succeeded due to the TAAC's efforts. That figure is 5 of 38, or 13 percent, according to the report. Another 4 cases were judged successes, but not on account of the TAAC's efforts; thus 9 firms, or 24 percent, adjusted satisfactorily. A firm's adjustment was defined as successful if its sales, production, or employment stabilized or increased by the time the plan was completed. This part of the report's conclusion also bears questioning.

First, it may be difficult in some cases to pinpoint just how much the TAAC had to do with a successful outcome. For example, one TAAC advised a firm producing wire that improved marketing would be a major solution to its problems, recommended hiring five nationwide sales representatives, and helped the firm choose them. The firm decided later to do without the salesmen and instead got a listing in a leading national industrial directory. Sales rose, and the firm's position improved, but a company spokesman gave no credit to the TAAC since he believed that success was entirely due to the directory listing. It might be considered that the TAAC deserved some credit, however, since it was the TAAC that identified a national marketing effort as key to the firm's improvement.

A second point is that the cases on which the Inspector General report rested its conclusions were completed in the deep 1982-83 recession. The large percentage of bankruptcies and business failures reported for the 38 firms the report examined was probably due at least in part to the dismal economic climate of the time.

Congressional hearings on the TAA program for firms, held in 1985, suggest that the number of successes found in the Inspector General study was exceptionally small, possibly on account of the time frame chosen for the study. At hearings of the Subcommittee on Trade of the House Committee on Ways and Means in Atlanta, Georgia, on April 6, 1985, a much larger number of successful cases was reported by two of the six TAACs included in the study. The Southeastern TAAC submitted a report stating that 45 firms entering its program from 1982 through 1984 had stabilized or improved their situation by 1985.[9] Several businessmen whose firms got assistance from the Southeastern TAAC also testified that their situation had improved. In addition, the New Jersey TAAC submitted a report on 16 firms entering its program between 1978 and 1983 (13 of them from 1981 to 1983), detailing increases in sales and employment for all of them by 1984-85.[10] These reports are not comparable with the results reported in the Inspector General study; most were from the TAACs, not the firms, and might have been biased toward optimism. Also, a followup a year or two later might show that some of the improvements did not last. However, the 61 firms reported as improved after working with these two TAACs greatly outnumber the five successes credited to four TAACs (including the New Jersey TAAC) in the Inspector General report. One difference may be that 1984-85 were much more prosperous years than 1982-83.

Finally, any study that evaluates the success of a program must consider carefully what "success" means. This issue is discussed below, in relation to the HCR report as well as the report of the Inspector General.

The HCR Report

This report by a private consultant was commissioned by the Commerce Department in 1984 and completed the following year. The study selected a random sample of 249 firms from a total of 426 firms which had submitted a diagnostic survey or adjustment proposal between June 1, 1981 and April 24, 1984. (HCR did not include in the sample all firms that were certified, since TAACs discourage firms in weak financial condition from seeking assistance.) Then, reports on the firms' economic circumstances were drawn from the TAAC files or obtained from the firms themselves; usually the TAACs got in touch with the firms for information, but in a few cases HRC made the contact. Enough information was gathered on 127 of the 249 firms in the sample to allow an evaluation of the firm's degree of success in adjusting by December 31, 1984, that is, 8 months to 3½ years after the firms took the first step to get technical or financial assistance.

The HCR study used three criteria to indicate whether the firm understood and heeded the TAAC's advice, whether its economic situation improved, and whether the progress was due to the TAAC's intervention, or simply to changing economic fortunes in the firm's industry. The criteria for adjustment were that the firm must have:

- begun implementing a majority of the tasks specified in its adjustment proposal;
- shown improvement in sales or profitability or an increase in employment after TAAC assistance; and
- equaled or bettered the average performance in sales or profit for similar firms (with approximately equal sales and in the same four-digit SIC).

These criteria for success are more exacting than those used in the report of the Inspector General. Yet HCR found that 44 of 127 firms assisted by the TAACs met all the criteria, and many met some but not all three; over half increased sales, the report said. Of the 122 sample firms for which no outcome data were available, HCR estimated (on the basis of the Dun & Bradstreet Credit Rating Reference Book) that 81 percent were still in business. This is close to the survival rate (79 percent) reported for firms that did have outcome data, and perhaps implies that the outcomes for both groups might have been much the same.

The report's results are clouded with uncertainty, however. HCR, unlike the Office of Inspector General, relied heavily on data in the TAACs' files, or collected by the TAACs in interviews; in the 127 cases, HCR directly interviewed only 17 firms. Details on the extent of adjustment—that is, a listing of individual firms showing what happened to the sales, profits, and employment of each—do not appear in the report. Thus, the questions the Commerce Department raised about the accuracy of the data could not be convincingly answered by material in the report.

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[9] U.S. Congress, House of Representatives, Subcommittee on Trade of the Committee on Ways and Means, *Hearings*, op. cit., p. 97.

[10] Ibid., pp. 26-27

Department officials were particularly skeptical of the study's finding that 10 of 15 firms getting Trade Act loans adjusted successfully; they thought this inconsistent with the fact that the default rate on TAA loans had traditionally been high. The Deputy Assistant Secretary in charge of the TAA program ordered a staff review of the data on firms getting loans and meanwhile held up release of the HCR report. The staff review reported that 9 firms, not 15, got TAA loans during the period reviewed, and that 4 firms instead of 9 adjusted successfully. The figures were not significant statistically because the sample was so small. No further information from the staff review was published, and no details on individual firms were given.

In authorizing the release of the HCR report in 1986, the Deputy Assistant Secretary for TAA included as an appendix an exchange of letters on the data problem. His letter said that:

> . . . a closer review of the forty-four firms which HCR has characterized as "adjusted" reveals that a number of them are in severe financial difficulty.[11]

No details on the extent of financial difficulty, that is, a listing by individual firms of declines in profits or sales, appeared in the letter or the appendix.

Defining Success

The definition of success is obviously a critical element in evaluating a program's effects. For individual firms, the standard of success used in the Inspector General report—that the firm must have increased or stabilized its sales, production, or employment as a result of TAA assistance—seems generally reasonable. However, there are cases in which such a standard fails to measure success. For some firms battered by import competition, the best strategy may be to contract, not expand, and find a niche in which the firm can succeed. For example, a New England company employing 500 people was producing three different kinds of woollens and was using compromise equipment, not the best for each kind of material, for "flexibility." With the assistance of the TAAC, the company put in a cost accounting system which enabled it to discover that two of the three lines of woollens were losing money. The TAAC advised the company to close two of its three mills, cut down to 300 workers, and concentrate on its profitable line. The company did so, although reluctantly, since the owners did not want to let the workers go. But the change made the company profitable, and made the 300 remaining jobs more secure. In this case, a firm succeeded by reducing sales, production, and employment. Without the TAAC assistance, the company might have failed, with the loss of even more jobs.

This sort of definition also has a more fundamental flaw. In a high-risk program such as TAA, in which assistance is given to firms that are already in trouble, it may be misleading to define success solely by the adjustment rate of individual firms. One TAAC official advocated what he called the "portfolio approach." He said:

> It's like the way a venture capitalist operates. He may have 10 busts for every hit, but if the hit is big enough, it pays for the failures.

Evaluating TAA assistance to firms would mean analyzing the costs and benefits of the whole program, measuring the public expenditure (now about $16 million per year) against the social benefits of the businesses and jobs that are preserved. The dollar benefits to society include property and income taxes paid, and outlays for unemployment insurance, adjustment programs, and other social programs avoided. No one has evaluated the program in this way.

Some of the TAACs have offered illustrative examples, however. For instance, Dawson Industries, a Georgia apparel manufacturer, first sought help from the TAA program in 1977, at a time when its line of women's lingerie was losing out to imports, and sales, profits, and employment were declining. That year, the firm paid only $4,000 in corporate taxes, and its 350 jobs were in jeopardy.

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[11] August G. Fromuth, Deputy Assistant Secretary for Trade Adjustment Assistance, letter dated June 30, 1986 to Ms. Louise Woerner, President, HCR.

The first change Dawson undertook, with the help of the New York TAAC, was to change the firm's line to higher fashion, more import-resistant sportswear; the company received a $1 million Trade Act loan to help make the changeover. Sales increased, but profits still lagged. The Southeastern TAAC then conducted an audit of the firm's operations, and recommended several changes to improve management and reduce manufacturing costs—such changes as re-engineering the sewing room, retraining first-line supervisors, and developing new piece rates and cost reporting. Sales continued to rise (to $30 million in 1983, up from $7 million 6 years before) and the company began making acceptable profits.

In 1985, employment was up to 400 at Dawson's own plant, with many more workers employed by subcontractors. Annual income taxes from corporate profits and the personal income taxes from the 400 Dawson employees were estimated at $1.5 million per year. The budget for the Southeastern TAAC was $1.3 million for the year. In addition, when workers' jobs are saved, unemployment insurance need not be paid. At $125 per week (the average UI payment in 1985), savings for 400 workers could amount to $500,000, assuming an average of 10 weeks' unemployment; with longer unemployment, savings of UI might be over $1 million.

The New England TAAC also provided OTA with information on several firms that received assistance from the program and were still in business in 1987, as a basis for a rough cost-benefit calculation. Four of the firms providing data entered the program in 1983. Their total employment in 1987 was 488. Based on payroll data provided by the firms and information from the Internal Revenue Service on tax rates for a family of four in 1984 (the latest data available), those workers paid, roughly, $911,500 in Federal taxes in 1984. In addition, UI payments saved for those 488 workers can be estimated at $677,200. The combined benefit in income taxes paid and UI payments avoided is roughly estimated at $1,588,700 for 1984.[12] The Federal grant to the New England TAAC in 1983 (the year these firms enrolled) was $1,040,000.

Obviously, this calculation is only illustrative. It does not give credit for corporate income taxes or property taxes paid by the company, or for State income or other taxes paid by the workers. It does not include all the firms that enrolled in 1983 and afterwards improved their sales and profits (two did not provide sufficient data). On the other hand, it assumes that the firms would have failed, with the loss of all their jobs, without TAA assistance; and it credits TAA with improvements that might have come about anyway because of the improving economy. It does suggest, however, that a more detailed analysis of the costs and benefits of TAA for firms could offer a reasonable basis for judging the success of the program.

The Dawson example from the Southeastern TAAC is relevant to another issue. An argument against the existence of the TAA program for firms is that it provides a temporary reprieve at best; in a dynamic economy there will always be some declining industries, especially those where labor costs are a significant part of total costs, and foreign labor costs are much lower than in the United States. The description fits the apparel industry. The prescription seems to be to let the apparel industry go.

Without getting into a number of broader questions—such as what happens to the U.S. textile and fiber industries if all apparel manufacture goes offshore—one might consider whether it is worthwhile for government to assist an industry that is in decline, but still employs over 1 million people, to slow down and stretch out the decline. The Dawson example suggests that a program that helps even a few companies survive for a few years—not necessarily for decades—may pay for itself. Another point is that it may not be inevitable for the entire American apparel industry to decline. Not all companies in industries facing severe import competition are fated to fail. Some parts of the industry, for example, standard items like men's shirts, may be hard to defend against imports. But there may well be continuing opportunites in America for apparel manufacture—for example, in more specialized, higher fashion lines where a quick turnaround is important. A government program of technical assistance to apparel firms capable of filling profitable niches may succeed, and may pay for itself.

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[12] For consistency, OTA used UI data for 1984. The average weekly UI payment that year was $123.42. In a 1986 survey of displaced workers, the Bureau of Labor Statistics found that workers losing jobs in the previous 5 years due to plant closings or production cutbacks were out of work for an average of 13 weeks. For this calculation, OTA assumed that the workers losing jobs in these trade-affected firms would collect UI for 13 weeks; the average payment would thus amount to $1,604.50 per worker.

Improving TAA for Firms: Problems and Opportunities

In early 1987, OTA surveyed directors and other officials of 11 of the 12 TAACs, 9 by telephone and 2 by site visits. Among the questions asked were what problems the TAACs encountered in carrying out the program, what were its strong points, and how it might be improved.

Interruptions to the Program

The single point raised by every TAAC in the OTA interviews was the paralyzing effect of the interruptions to the program since December 1985. Especially damaging were the 1- and 2-month extensions, mostly with no grants of funds, in fiscal year 1987. First, when the Commerce Department ordered all the TAACs to close down following the lapse of legal authority for the program, the TAACs were forced to break implementation contracts with many of their clients. When they reopened months later, many clients declined to return to the program. And it was hard to attract new clients, since none of the TAACs had agreements lasting longer than a few months (through the end of 1986). Firms that might have welcomed TAA assistance were reluctant to make a commitment of time and money which the TAACs themselves could not make.

The situation worsened in 1987, when extensions were kept to a month or two, and the funds allowed the TAACs were only enough to keep the doors open. Many staff members left and could not be replaced; a typical reduction in staff was from 15 to 18 down to 2 or 3. The staff members who remained were job hunting. In April 1987, the TAACs had agreements, with minimal funding, lasting only through June 15.[13] They owed millions of dollars of technical assistance to firms with whom they had contracts dating back to 1985 and before. They were losing their legitimacy with businesses that might profit from their assistance.

Time Restrictions

Before the disruptions that began in December 1985, most of the TAACs found TAA for firms to be, on the whole, administratively workable. Two or three features of the program have created difficulties, however. One is the inflexible time limit of 1 year during which TAACs can commit themselves to serve their client firms. As described earlier, the shortest time possible for producing an adjustment strategy is more than 6 months, and in practice the time is usually several months longer. Often, the firm itself will delay in committing itself to an adjustment plan, while weighing the costs and benefits.

Commerce Department rules prohibit the TAACs from undertaking any activity, whether with clients, consultants, or anyone else, that will last past the end of the TAAC's grant period. The way TAACs and their clients have handled this restriction in the past, when the TAACs customarily had 12-month grants, was to make a good faith assumption that the TAAC would be around the next year to finish the job. For consultants, one strategy was to break up a technical assistance program into smaller parts that could be completed within the time limits. This can be an awkward and expensive way of managing a project, however. Another possibility would be to allow the TAACs to make contracts that last past the end of the grant year, contingent on their receiving grants the following year. With the recent 1- and 2-month extensions, TAACs have been effectively barred from giving any implementation assistance at all, since the time is too brief even to get it started. Five TAACs said in response to OTA's survey that a 12-month grant period is the minimum period they can work with.

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[13] As noted, in May 1987 the Commerce Department asked for 12-month grant proposals from the TAACs, to cover the period June 1987 to May 1988.

Outreach

An October 1981 directive from the Department of Commerce prohibits TAACs from directly approaching firms, by letter or phone call, to acquaint them with the TAA program or offer TAAC services. The purpose of the restriction, according to the Commerce Department, is to prevent any firm's feeling pressured to request trade assistance. TAACs may make speeches or take part in seminars sponsored by industries or communities and explain the TAA program, but must make it clear that it is up to the firm to take the initiative to request assistance.

Most of the TAACs have found it a handicap to operate under this restriction, since the TAA program for firms is small, unpublicized, and little known. The TAACs do make their program known to industry organizations and Chambers of Commerce, Members of Congress, Governors, State and local agencies, and community organizations. The TAACs that are affiliated with universities and economic development agencies use these groups to contact firms. The necessity to make themselves known through a network has proven a positive benefit to some of the TAACs, though most would like to be free to approach firms directly. For example, one TAAC director said he knew that a leather goods firm in his community was in trouble, and would have liked to offer TAA assistance. Eventually the firm did find out about the TAA program, and asked for help, but by that time the firm was too far gone to profit from assistance.

Affiliations With Other Institutions

For some of the TAACs, close links with other institutions are a source of strength. Five of the TAACs are independent, governed by boards representing State and local agencies and the private sector. The others are associated with or under the wing of other institutions. Six are affiliated with universities. Four of those consider the university connection very advantageous.[14] It gives them legitimacy and helps them attract the kind of clients that can benefit from their services, and it gives them ready access to help from teachers, researchers, and graduate students in business and engineering schools.

The TAACs that seem to have the closest university links are the Southeastern, Western, and Great Lakes. The Southeastern TAAC is an integral part of the Georgia Tech Research Institute, under its Industrial Extension Service. Staffed with Georgia Tech Research Institute employees, the TAAC is able to tap the expertise of the entire Institute, with its 650 professional and 150 academic researchers. An especially valuable resource is the Institute's industrial training program, which specializes in training for first and second line supervisors. Another advantage Georgia Tech confers is its name. Georgia Tech is so respected throughout the southeast that the TAAC staff find they have immediate entree to many businesses that might not react so favorably if they saw the TAAC as a government agency. In addition, the Southeastern TAAC has been able to weather the disruptions of 1986-87 better than most because it can trade and share staff with other departments of the Institute. Once staffed with 19 full-time equivalent staff members, it was down to seven full-time equivalents, including 10 people, in early 1987.

The Western TAAC gears most of its assistance to designing new products and production processes, and to installing computer systems; its association with USC gives it access to the university's research center for technology transfer. One professor each from the business and engineering schools serve part time on the TAAC. The university also serves as a base for the TAAC's outreach and administrative activities.

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[14] They are Southeastern, which is connected with Georgia Tech Research Institute; Great Lakes, with the University of Michigan; Mid-American (not interviewed by OTA), affiliated with St. Louis University; Rocky Mountain, with the University of Colorado; and Western, with the University of Southern California. The New York State TAAC, associated with the State University of New York at Binghamton, is largely autonomous; the university's contribution is largely confined to help with outreach.

The Mid-America TAAC was previously located in Little Rock, AR, but it ceased operations in 1986. TAACs surveyed by telephone were New York State, Binghamton, NY; Metro New York, New York, NY; New Jersey, Trenton, NJ; Mid-Atlantic, Philadelphia, PA; Great Lakes, Anne Arbor, MI; Mid-West, Chicago, IL; Rocky Mountain, Boulder, CO; Northwest, Seattle, WA; and Western, Los Angeles, CA. The TAACs visited by OTA staff were New England, Boston, MA, and Southeastern, Atlanta, GA.

The New Jersey TAAC says it profits from its association with the State's Economic Development Authority. As a part of the State's business retention services, it has access both to expertise in the agency and to financial assistance for firms via the State industrial revenue bonds. Also, the agency helps the TAAC with outreach throughout the State.

Broader Eligibility

TAAC officials mention two problems with eligibility for the program. First, as with TAA for workers, service and supplier industries are not eligible. Then, it is sometimes hard to draw the line for firms that are manufacturing goods. For example, if a firm makes several products, some affected by imports but others not, any product line that accounts for at least 25 percent of the firm's total sales may be considered for eligibility. But unless the firm's overall employment is declining, none of its products can be certified for assistance. Often, firms losing out to foreign competitors in one product line will shift workers to another line as a temporary expedient; yet over time, the firm's position may erode. An earlier intervention might have kept it out of trouble.

In general, the need for an early response is not as clear for trade-affected firms as it is for workers losing their jobs. However, timely intervention, offered when a firm still has some strengths, is obviously more likely to succeed than help that is delayed until the firm is on its last legs. It has sometimes been suggested that whole industries might be certified as import-affected, so that firms do not have to wait till their sales or production are already in decline before they are eligible for assistance. This of course would enlarge the universe of firms eligible for help; so would the extension of eligibility to service and supplier firms. Unless given additional funds, TAACs would then have to be more selective than they are now, or service to firms would have to be diluted, with briefer, more superficial assistance offered.

An alternative to broadening eligibility for TAA services is to offer industrial extension services to any manufacturing firm that needs to improve its management and technology. Possible models for this kind of service, open to all, range from the highly competent but time-limited assistance offered by Georgia Tech's Industrial Extension Service to the venerable Agricultural Extension Service, with its combination of Federal, State, and county funds, applied research in the land-grant universities, and delivery of services by county agents. Although it is certainly not free from criticism, the Agricultural Extension Service has received a great deal of the credit for fostering the technologically advanced, highly productive agriculture of the United States. The service has taken many years to develop, costs close to $1 billion per year, and would not be instantly replicable in an industrial extension service. It represents the high end of the range of possibilities for diffusing technology to manufacturing industries.

The TAA Industrywide Program

Since 1978, when industrywide TAA assistance began, the Department of Commerce has signed 52 cooperative agreements with representatives of a variety of trade-affected industries, providing technical and export assistance. Industry associations (or other representatives of industry) share the cost of developing improved manufacturing technologies, better market analysis, and other kinds of technical assistance that will help firms in the industry become more competitive at home and abroad. They also cooperate in helping firms export their products more effectively.

To qualify for the program, an industry must show that its sales or production have declined, that firms in the industry have been certified as TAA-eligible, that the project results will lead to prompt actions by the industry, and that the industry will commit time, money, and effort to carrying out the project and making its result known to members. Usually the industry provides one-quarter to one-half of the cost of the project.

The TAA industrywide program began with a heavy concentration on footwear and the textile-apparel industry; apparel and textiles remain at the top in funding, but footwear has dropped out and other industries—electronics, auto parts, iron products—have received more attention recently. Most of the industrywide projects are short term; the Commerce Department considers its contribution seed money, to get the industry started on technology and management improvements for its members, which the association will then take over itself. One of the bigger recent projects ($450,000 in TAA funds over 3 years plus $805,500 from industry) is for improved iron casting. As shown in table 5, the industrywide program was funded at about $2.5 million to $4 million in recent years.

By far the largest industry project TAA has supported is TC^2 (Textile & Clothing Technology Corp.), whose purpose is to produce a machine that will automatically load, fold, and sew limp fabric, particularly in the exacting task of making men's suit jackets. Contributions to that project from TAA funds amounted to $1.6 million in 4 fiscal years, 1981 through 1984. When the Commerce Department attempted to cease funding TC^2 after 1984, Congress took over and provided line item appropriations, $3.5 million in 1985, and $3.3 million in 1986 and again in 1987. (In April 1987, however, the Commerce Department had not yet made any grants from the fiscal year 1987 funds for TC^2.) From 1981 on, the industry provided $10.7 million in cash for the project, and more resources (e.g., staff time) in kind.

The industry association offices being opened in Tokyo are examples of TAA export assistance to industries. The American Electronics Association established a Tokyo office in 1984 with TAA help, and the Motor Equipment Manufacturers Association planned to follow suit in 1987. Although the Commerce Department intended to limit TAA funding for these offices to 3 years, representatives of the electronics industry have asked that it be continued, on the grounds that the Japanese take government involvement seriously, as an emblem of the industry's importance to the U.S. economy.

Administration officials in the Commerce Department do not express the same "philosophical" objections to the TAA industrywide program as to the program for firms; one described it as a "bright spot." However, the Commerce Department has given no funds to the industrywide TAA program in fiscal year 1987, because officials interpreted language in reports of the House and Senate Appropriations Committee as reserving all Commerce TAA funds to the program for firms. The program is popular with a number of industry associations; some protested to Congress about the cutoff of funds. As noted earlier, the House Appropriations Committee explicitly stated in its report on a bill providing supplemental TAA appropriations that funds should be available to industry projects as well as to the TAACs, for technical assistance to firms.

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